Daniel Lacalle: Navigating Monetary Debasement

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Erik: Joining me now is Tressis chief economist and fund manager Daniel Lacalle. Daniel, I've been dying to talk to you about some longer term, big picture issues. You know, back when we had zero interest rates, all of the doomsday bloggers were saying, mark my words, someday we're going to get back to 5% Treasury yields normal interest rates. And when that happens, you're going to see the United States rack up an extra trillion dollars of national debt in a single quarter. And when that happens, it's all over baby, the sky is falling, the world comes to an end. That's it. Well, Daniel, the crazy thing is almost all of that happened. We got back to 5% Treasury yields, we got the trillion dollars of additional US national debt in a single calendar quarter. And nobody noticed it, didn't even make the news. I guess that probably is reinforcing moral hazard that a lot of people who say deficits don't matter feel like they've been proven right? We can just keep on printing money out of thin air, it seems like doesn't cause any problems. What's going on here? How is it possible that this has happened without causing any major problems? And what does it portend for the future?

Daniel: I think that the big risk here is to believe that nothing is happening when a lot of things are happening all at the same time. And that is because the average author, analyst or the average consumer, the average citizen, thinks that a sovereign debt bubble or a crisis created by government spending bursts in the same way that a real estate bubble or a tech bubble, they think that it's going to be an abrupt, very quick, very "evident in the eye" type of crisis. However, a debt driven bubble, like the one that we are living right now, bursts slowly. And it's like when you are boiling, I don't know, shellfish? Basically it's very gradual. And then it leads us basically to stagnation. So a lot of people say, well, nothing actually has happened. But a lot has happened. To start with, a massive decline in real disposable income, massive reduction of real wage growth, negative real wage growth in what was supposed to be a strong economy. And at the same time, a significant reduction of the ability of the middle class to climb the social ladder. So ultimately, what we're seeing is, is a slow process of impoverishment that people confuse with nothing is happening, when it is happening. There is a massive bailout of those that have access to credit and those that have access to those newly created units of currency, which are fundamentally the zombie companies. And we see that government and zombie companies get out of these recessions or crisis very quickly, and without allegedly much of a problem. But small and medium enterprises, the average citizen, the middle class, in general, does feel the pinch. And people don't understand that what is happening to them is the destruction of the purchasing power of the currency, which is the way in which government debt bubbles burst in a Japan-ization kind of way. So basically leads to stagnation when there should not be stagnation. In the case of the United States, it's a very, very agile, dynamic and intrapreneur driven economy that should be growing much faster. Not growing because of debt, not growing because of government spending and increases in deficits. But productivity driven growth with real wage growth, citizens listening and watching every day in the media that employment is at an all-time highs that everything is great, that this is a boom economy and real wage growth is negative. And that's on average. If you go sector by sector real wage growth is actually even worse. So it's basically inflation and stagnation together are the outcome of the burst of the bubble that was created by negative real rates and massive liquidity injections.

Erik: Now Daniel, I personally agree with everything that you're saying but let me take the opposite side of this just to play devil's advocate, or socialists' advocate as the case may be here, the socialists in Europe or the political left in the US states would say, look, you've got it exactly backwards. Because the real problem here is the excesses of capitalism, Wall Street has caused a lot of pain and suffering for the average middle class citizen, whether that be American citizen, European citizen, and what have you. And what we've learned since 2008, is these big stimulus packages which the government uses to rescue the working man from the excesses of Wall Street, have been incredibly important to provide support to the masses. And look, we've done lots of these since the GFC in 2008. All of the naysayers said that this is going to lead to runaway inflation, and it didn't. And we've done quite a few stimulus packages in response to recessions, in response to the COVID pandemic. And the sky has not fallen the way a lot of people said it would. And a lot of that money has gone to support middle class and lower class people. Now, I can't help but observe that despite the fact they'd like to declare success, we still have people living in tents on the streets of Los Angeles and people pooping in the streets of San Francisco. But the argument they make, which I think has to be addressed, is all of these great big stimulus programs which have run up national debts, didn't cause runaway inflation all of a sudden the way people said it might, and they haven't, at least in the eyes of those people really led to any serious problems. How would you react to that?

Daniel: Well, I would react, start with by saying that the entire narrative is completely false. To start with, that policy of massive stimulus packages has not driven an improvement in the middle class and improvement for the working class. If anything, the massive stimulus packages and the huge implementation of government debt driven stimulus plans, what they have done is to bail out large, some big corporations, and also to continue to drive the Wall Street bubble, the stock market and debt bubble. So those that have access to capital, and those that have access to debt are the first beneficiaries. Money creation is never neutral. And the idea that it's going to be spread helicopter money widespread and without any negative impact to the average citizen is completely wrong. So the argument is exactly the opposite. To start with, the previous crisis were not generated by the excesses of capitalism, but by the excesses of statism. You don't have a real estate bubble, unless the government incentivizes. You would not have had subprime lending if government would not have implemented a policy by which the government would give a rating, the highest level of rating to mortgages provided by Freddie Mac and Fannie Mae to state owned companies that were giving mortgages to people that did not have access to the ability to repay for those houses. The big problem here is to believe that the excesses of statism are the excesses of capitalism. Capitalism is about cooperation, capitalism is about putting together the needs of capital and consumers in the best possible way. And capitalism has a distinct feature, which is creative destruction, which is that innovation, technology etc., generates so much more improvement, such a larger improvement in the economy and in the access to goods and services of consumers, that there is a destruction that generates an improvement and progress, there is a destruction of the obsolete sectors. What this policy has done is, on the one hand, zombify the obsolete sectors, and by that, making it more difficult to generate the newly added value jobs that are going to generate higher productivity.

And also, it is very important to understand that the socialist narrative is that people are better off because of these policies. Yet, people don't feel better off and rightly so. And the reason why they don't feel rightly so is because the other side of the coin of these massive stimulus packages, are A: inflation. Inflation, yes, first, there was massive inflation in non-replaceable goods when they said that there was no CPI inflation. Inflation, let's remember that inflation is not CPI, Consumer Price Index. Inflation is the destruction of the purchasing power of the currency. So the biggest challenge here for citizens is to understand that what they are seeing is not an environment in which they're getting better off because of government policy, but that those government policies have another side of the coin, which is a high inflation, much higher cost of tuition, much higher cost of health care, much higher cost of insurance, etc., when they say that there is no inflation, and now, high inflation. And second, and this is the key, is that it becomes more challenging for the lower middle classes to climb the social ladder, because asset prices, they don't rise because the purchasing power of the currency is destroyed. And at the same time, what they're basically being told is that money that is coming out of thin air, is improving their position when it's only zombified the economy, and therefore leaving those people behind. No wonder, in the period of massive stimulus packages, government spending, so-called egalitarian policies, what we are seeing is an enormous rise in populism, because people are frustrated with these programs. And the only answer that they get from socialism is that, oh, you may be right, but that's because we didn't do enough. That's because we did not do enough intervention, we did not do enough spending, we didn't do enough debt driven stimulus plans. And what ends up happening is that there is no stimulus, it's zombification, the level of government in the economy rises massively. And citizens see that they are much worse than they were with the previous generations. So what do citizens see ultimately? Yes, there were crisis before 2007, 2008? Absolutely, there were. But what happened is that from a crisis, you would get out growing faster, with much higher level of wage growth, with improvement in which our fathers, our grandfathers, our grand grandfathers, were able to improve their situation very, very quickly, and become wealthier and rise in terms of average wealth to a thriving middle class. Ultimately, massive money printing is only one thing, which is destroying the wages and deposit savings of the largest chunk of the population, which is very low class, in order to bloat the size of government and tell you that that is a good outcome for you. Because you don't feel in one year the problem, you feel it in 10.

Erik: I want to pick up on the point you made about the answer from the socialists always being that we just need more socialism, and that will solve everything. Because it's been said before, that in democracy, socialism is a one way street, because once you've persuaded a population that they deserve something for nothing, it's very difficult to un-persuade them of that. So I want you to imagine being teleported to the streets of the San Francisco tenderloin where people are literally living in the streets and using the streets as a toilet, basically. And imagine that what you need to do is give a speech, an introductory speech about macroeconomics and explain to them why it is that the stimulus checks they got during COVID and the other handouts are the problem. And what we need to do in order to get them out of living in tents, is to get rid of those handouts and stimulus programs and do less socialism as opposed to more. And I personally agree with you strongly that the reason we have all of this economic stagnation is because of decades and decades of excessive deficit spending, leading to an untenable economic situation. But how could you ever expect to persuade the general public that we need to change our ways?

Daniel: The first thing that I would say to those people is that what you think that the government gives you for free is always taken from the productive economy. There is nothing that the government gives that doesn't come from taking from the productive economy. So the idea that you cannot access your goods and services and that the government is going to provide them for you, is impossible when you are at the same time destroying or reducing significantly the ability of the economy to grow productively. The point that I would say to those people is very simple, there is nothing free in government spending, all of it will be paid by them, by those people that are in the street. Why? Because it will be paid in higher inflation, which is the tax on the poor, which is much higher cost of living, much higher cost of goods and services. It will be paid, obviously, in higher taxes if they make a wage or if they have a home, or if they start to generate some income, and it will be paid in much lower opportunities to get out of that situation. So basically, what I would say to those people is that the reason why mouse's fall into a trap is because they don't know why the cheese is free. The cheese is not free, it's a trap to make you a hostage client, those people in the streets in San Francisco think that the government is the solution. But the problem is the government. What those people need to understand is that the government needs them to remain where they are, or worse, in order to continue to have them as hostage clients that demand whatever crumbles are left of what the government can provide. What socialism needs is poor people. And the reason why it needs poor people is because: 1) they are fully dependent on the state. 2) they cannot complain when the state gives them the crumbs of whatever is left out of what is stolen from the productive sector. And 3) and more importantly, the government does not want them to rise above the status of poor because once they rise above the status of poor and become middle class, the middle class 1) complains 2) has the economic freedom in order to change governments, and more importantly, 3) it can think independently and can challenge powers. So the best way to remain the powers that be is by keeping people poor.

Erik: Very well spoken, sir. I agree wholeheartedly. But if you give that speech in San Francisco, please take a security detail with you. I think you'll need it there. Let's move on to the role of the central bank and all this because if you read a textbook about what central banks are and why we have them, they're described as the lender of last resort. Seems to me like they've kind of shifted gears into becoming the lender of first resort in recent years. Why is that accurate? Why is it happening and what are the consequences?

Daniel: The role of the central bank is not to bail out the economy and not to bail out the zombie banks that are unable to conceal their balance sheet. The role of the central bank is to provide liquidity in periods of very challenging moments in which the banking system cannot provide that liquidity because there's lack of trust between them and the entire banking system is not working. But the central bank's role is not and should not be employment. And certainly it has to be 100% about the purchasing power of the currency, i.e. stability of prices. To start with, when the central bank states a target of 2% inflation per annum as stability of prices. That to start with is a very misleading target, because it means that it will drive imbalances higher in order to keep a level of rising prices that is inconsistent with technology improvements, with innovation improvements, with efficiency and productivity improvements. Think about this. In a technology driven world, 2% inflation makes absolutely no sense when it should be much lower, thanks to the disinflationary benefits that disintermediation generates. So the idea that the central bank on top of that is the lender of first resort means that you are incentivizing bad economic behavior, because if it's the lender of first resort, those banks, companies, multinationals, you name it, that are close to government that implement wrong strategic decisions, wrong investment programs, wrong balance sheet decisions, all of those will be the first recipients of money when the central bank decides to generate new stimulus program. So, instead of improving the economy by allowing some of those that have made mistakes to restructure, change their bad position, what you're basically doing is incentivizing bad behavior. The central bank goes out and bails out a bank that decided to have a massive position in long dated treasuries without hedging the duration risk. So they get bailed out, what does any bank in the world decide to do? Okay, I'm going to continue to do that, because I know I will be rewarded for misbehaving in my balance sheet decisions. In Europe, you see these enormous, very close to the government conglomerates, purchasing companies all over the world, taking very risky and negative decisions in terms of capital expenditure in terms of debt, in terms of inorganic acquisitions. And what happens when there is a next generation EU fund or a massive European Central Bank package, those are the first that receive the money, so they are rewarded for making wrong decisions.

Meanwhile, the small and medium enterprises, the thriving higher value sectors, the newly created companies, those that are not in a position to be bailed out, because they're not too big to fail, those are actually being destroyed. And this is literally statism. The problem of people is that when they think of socialism, as they look at the word, and the word sounds nice, because it has the word “social” there. This is statism, which is that everything in anything that is close to government gets bailed out, while everybody else, workers, and small and medium enterprises suffer the consequences. I come back to the point that money creation is never neutral, it always disproportionately benefits the first recipient of money, and always disproportionately affects negatively the last recipient of money, which are wages, and deposit savings. So small and medium enterprises and workers always suffer. It doesn't matter how you implement it, be it in a direct monetization of the deficit, like in Argentina, or in Venezuela, or whether it is through quantitative easing, like the European Central Bank, or the Fed. The problem here is that when the central bank becomes the lender of first resort, the process of credit creation, and the positive impact of creative destruction and the positive impact of progress in general, that allows thriving small companies to become larger, all of that process is being destroyed, because there's one massive force that jumps in and bails out at the beginning, the government and those sectors that are closer to the government. So it's more corporate statism and pure socialism. Because at the end of the day, if you look at it from the perspective of what has happened in Argentina recently, what has happened in so many other countries, it's at the end of the day, the same, that the people get poorer. And you maintain a system in which the government gets larger, and lets some close to the government sectors have their head slightly above water, while everybody else only is able to breathe from time to time.

Erik: Let's talk about why so many people do not perceive that our debt laden economic system is broken presently. Because, look, I'm just barely old enough that I can remember when the United States was a creditor nation, when a single parent income was enough to sustain a very comfortable middle class lifestyle for a family of four, when teenagers were driving around in muscle cars in the late 1960s. When kids could just screw off and go to Woodstock and do drugs and you know, the life was easy. If you look at people living in tent cities on sidewalks today, you would think that people would look back and say, wait a minute, what's changed since the 1960s until now? Why is it that it's so much harder to get ahead than it used to be? But it seems like nobody looks at it that way. And certainly, nobody makes the connection to an over indebted government, leading to a lower standard of living for all of society. Why is it that nobody makes that connection? And is it fair for me to be making that connection?

Daniel: No, it is extremely fair for you to make that connection. I remember in the middle of the financial crisis, that I saw a documentary in one of the US TV channels that showed a woman that was talking about her completely destroyed financial situation. And she was asked why she had got to that point. And she said, well, I didn't know that you basically had to pay back the credit card, I just maxed out one, ordered another and went on that way. Debt accumulation is always perceived as wealth. Because, as you said prior, it looks like nothing happens, hey, the government runs a 2 trillion deficit, and I'm surviving, I'm okay. What you don't understand is that that debt accumulation means that the government is consuming units of currency that will be generated by the productive sector in the future. So it will be paid either in higher inflation, or in lower growth, or in higher taxes, or the three things at the same time. So when the government enters into these massive stimulus, and deficit spending plans, it is basically just doing that with your credit card, it's doing it with your credit card, and it will be paid by you, and by your sons and daughters, and by your family. At the end of the day, it's the biggest con in history, is to think that the government is giving you something for free, that is going to be paid by you. So literally, it is like, if somebody finds that it’s Christmas, and that somebody bought presents for all the family with your credit card, oh, how generous? No, the government doesn't give you anything that it doesn't take away from you. And by the way, particularly those that think that it's not being paid by them. And this is the key, the key factor is that what many people think is okay, yeah, I understand what Mr. Lacalle is saying, the government is giving things that they're taking away from others, but they're not taking away from me, that's the message that many socialists keep repeating. It's not being stolen from me, it's being stolen from somebody else. And that's the fallacy. The fallacy is that those that think that they will be the recipients of free money from the government are not the ones that pay for it. And they are the ones that pay for it precisely in what you just mentioned, is that they don't get why their parents, their grandparents had the ability to thrive faster, and improve their conditions and become part of the middle class and even better, accumulate some wealth, and they are suffering. And now instead of one salary in a four-member family supporting everybody, you need to have two salaries, and even multi, you know, different various jobs in order to maintain a minimum level of living, and that is the hidden tax of inflation.

Obviously, you read what you just said before. Daniel is wrong, because there was no inflation. There was no inflation in the period in which they said that there was no inflation. Tuition costs more than double, health care costs more than double, insurance expenses, more than doubled. Food prices also increased dramatically. So, what we have seen is that people are told that they're not getting poorer, but they feel that they are getting poorer. The only way in which you gel that socially is by making them believe that it'll get better in a couple of years. Okay. Mr. Lacalle is right. Now, we're running way too high deficits, and we're increasing the debt way too fast, but this will change in a couple of years when everything grows faster. The higher the level of government debt, the higher the level of taxes inflation and unemployment in the future. And unemployment is not the way that we measure it. Think about this, in the United States, people talk about a record low unemployment with a 3.2%, 3.3% unemployment. However, what people don't talk about is the fact that, for example, the employment to population ratio, and the labor participation ratios, those two are way below the levels at which they were in 2019, for example. So ultimately, what we're seeing is, let's say deceit from slow burn, you have a situation in which the government is presenting itself as the solution to the problems that they create. And therefore, when people see the negative impact in the economy, of massive government spending and massive deficit spending, what the government says to them in an election is, don't worry, we need to spend more, and we need to run a higher deficit. And that's because the mouse doesn't understand why the cheese is free.

Erik: I agree with you, Daniel. But going back to what you said earlier about this being a slow motion process. That happens over a long period of time, where there is no sudden event. So it's not like, okay, there was a stock market crash, and all of a sudden, the next day, the company was laying people off and I lost my job, my neighbor lost their job, I understand the cause and effect. It's more like, decades ago, before I was born, life was better. I don't remember that. I don't have any reason to make the intellectual connection that the reason life is no longer like that is because of over indebted governments. That's something that's well beyond the comprehension of the average citizen. So I guess what it seems to me is, how does this cycle ever get broken? Why should we expect anything other than for governments to continue to just spend more and more into debt is a lot of the socialist side of the political debate continues to insist that it's not a problem until something breaks and how long does it take? And what is the catalyst that causes something to eventually break?

Daniel: We'd see usually, an inflationary bust. Unfortunately, people are always going to react that way, the same way as that woman in the documentary didn't understand why she was getting poorer as she was taking more credit card debt. It's certainly difficult, because the perverse incentive is being laid out in the political discourse at the same time, which is, don't worry, yes, we are running massive imbalances. But you're not going to pay for it. It's going to be paid by the rich, it's the rich. So socialism is always that, it's always trying to show you the two things. A culprit and a payer, that is at the same time, far away from you, you think it's far away from you, and it incentivizes envy, ah, the problem is the rich.

The problem is not a bloated government, because the problem of inequality is not between the rich and the poor in the United States. The problem of inequality is between the taxpayer and those that consume the budget, that is huge. That is the highest level of inequality. So the problem in the United States and in Europe, is that, yes, it is never easy to tell people that this slow process is making them poorer. But it is true that, as we have seen in so many times in history, and we have seen it in the United States as well in the 80s. And we have seen it in countries in the ex-Soviet Union, we're seeing it in Argentina even, is that people suddenly say, enough is enough. People say enough is enough, because although the government will spend days on end, and we'll have loads of allegedly specialists telling them that inflation is due to OPEC or to large corporations or to evil consumers or to hoarding, whatever it is, they will invent any and every reason in order to say that inflation is not something that the government is creating and benefits from. People always understand at the end, that the inflationary burst is the price of those things that you thought that were free that the government gave you, people ultimately understand that the government gave you a stimulus check. And now you have accumulated 20% inflation in four years. That's what they understand. And it takes time. And it's not easy. It's not easy because of what you said, because it doesn't come with a catalyst. The Argentine citizens did not wake up one day with 140% inflation. The Argentine citizens started by being told that 10% inflation was because supermarkets were evil, that 10% inflation was due to corporation raising prices, all at the same time, 30% inflation was because the of the capitalist neoliberal system, 40% inflation was because of the lack of socialism. 50% inflation was because they had to do more. You see, there's unfortunately, let's start by reminding one thing, people are not stupid. But a slow process like this is difficult to understand by citizens, when you have at the same time an enormous propaganda machine telling you that inflation has nothing to do with government deficit spending. Now, people don't understand, for example, people do understand that printing money is one of the reasons why they're getting poorer. But what they don't see is the connection between printing money and government offering you allegedly free things, because they think that that's the evil Federal Reserve central bank. And I've read in some left-wing media that the reason why the Fed is creating inflation is because it's privately owned. No, the Federal Reserve or the European Central Bank only print money, because the government deficit is way too high. Ultimately, what they're doing is monetizing government debt. So if people don't understand where that free money comes from, and when they do understand where that free money comes from, they reject that free money, because they know that it's coming from much lower purchasing power of the currency, that in which they earn their wages, and that they save in their deposits.

Erik: Unfortunately, it's beyond you and me to try to solve any of these problems for humanity. So let's focus, since this is an investing podcast, on how our investor listeners can profit from understanding this, so that they have more money for governments to take away from them through taxation to spend on silly things that don't help. It seems like it's very tempting to say, well, okay, if an inflationary bust is the inevitable outcome, then we need to do things like, just back the leverage truck up and buy gold. But Daniel, people have been saying that since August of 1971, that the big inflationary bust is coming, and that gold is going to save you and everything's going to be great. I think that there's no doubt in my mind that that absolutely has to be proven right in the end. The problem is that people were about 50 years early and convincing themselves that the end was nigh. How do we know when the end really is nigh? And how do we navigate this investing landscape until we really do get to the end game?

Daniel: Well, you don't know when the end is nigh, obviously. If people knew when the end is nigh, it would be extremely easy to run a swap and organize the most profitable trade in history. So what you need to do as an investor is to run a balanced portfolio that understands monetary debasement. This means that in that portfolio, you need to have gold. You need to have precious metals because they are the base, the pillar of portfolio that is going to fight against monetary debasement in a period in which, obviously, the other thing that monetary debasement does is, quote unquote, inflate the asset base. So you need to have gold and precious metals, but you need to be invested in stocks and you need to be invested in stocks that benefit from that monetary debasement. Think about all the things that we have mentioned about the Fed, how printing money disproportionately benefits the first recipients of money and disproportionately hurts the last recipients of money. There is no wonder that technology giants are benefiting from that monetary debasement situation, because they generate enormous levels of cash, but they also have benefitted from the newly created money to become those giants by capital increases access to capital etc., etc. So, you need to have stocks and you need to have stocks in the United States. Why? Because the monetary debasement process and the reason why it's perceived to be slow, and the reason why it's perceived to be sort of something that is inevitable, is because the monetary debasement process is happening all over the world at the same time. And monetary debasement is not an absolute game. It's a relative game. So the dollar strengthens relative to the Euro, although the US dollar loses purchasing power for US citizens, inflation. So in that process, you need to understand that there is a reason why you are getting a disproportionate difference in the returns of United States stocks and United States assets. Very simple. Those things, those assets are the ones that are benefiting from the monetary debasement, from the global monetary debasement, that makes the dollar relatively strong against other currency, particularly in emerging economies. And at the same time, the monetary debasement is happening all over the world.

So, you need to be invested. Having deposits is the worst, deposits in cash is the worst thing that you can do, because that is going to be destroyed via inflation. And obviously, taxation. You need to be in precious metals, you need to have some portion of real estate and private equity, and you need to have a portion of stocks. Which asset class, in my opinion, is the one that is riskiest in a global debt bubble, generated like the one that we are seeing right now? To me, sovereign debt is the worst of them all, because the two most misleading words in the financial sector are fixed income, because it's not fixed, and it's not an income. So we need to understand the bonds are not working the way that they worked in the 50s and 60s to help the middle class become stronger. Bonds, sovereign bonds are actually destroying, detracting from the ability of the middle class to gain some wealth, because the real yield of those bonds pay is very low, and relative to the level of core inflation in particular. And the underlying asset is also being debased. When you print money and you generate inflation, what the government is basically doing is slowly eroding the value of the debt that they issue. So, for an investor, you cannot predict when the end of the monetary debasement process will happen. But what you can certainly do is to benefit from the process by understanding that it's a monetary debasement process, in which the world reserve currency strengthens, in relative terms, although it continues to lose purchasing power. And we are seeing a gradual domino effect in which emerging market currencies are losing faster their purchasing power than developed economies, it's the vacuum effect of the world reserve currencies. And those are, at the same time losing purchasing power for the citizens internally. That's why you need to have some level of hard assets, gold and precious metals, but you have to be invested in stocks. And if you have to choose stocks in one area or another, I always would prefer the United States because it's where you get the highest level of identification of interests of the small investor with management, through buybacks, through dividends, through the level of exposure to the stock price of the management of companies.

Erik: Hang on a second, the whole theory of the 60/40 portfolio back when that used to work was, you really need some kind of hedge to offset, there's always going to be ups and downs in the stock market. When there's a doubt in the stock market, the whole theory of the 60/40 stock bond portfolio was that 40% bond position was going to appreciate when the stocks went down and that was going to be your safety mechanism. That hasn't worked in a few years now. So I agree with you it's not working, it doesn't make sense to continue the 60/40 strategies just because it used to work. But is there a replacement for bonds that can have that hedging effect to offset the bumps in the road in the stock market?

Daniel: Think about why we created the idea of the 6/040 portfolio. The reason why the bond part of the portfolio would give you a hedge to the volatility and the risk of the stock part was because there was a perception that through time, the real value of that bond plus the yield would generate higher than inflation return, as you have very well noted, that is not happening anymore. And what we see right now is that when stocks go up, bonds go up, when stocks go down, bonds go down, or the other way around, I don't care. The fact is that they're hugely correlated. Therefore, a 60/40 portfolio is actually 100% portfolio of monetary debasement. So what you need to do then, is to change the portion of the bond part of the portfolio with those assets that actually do work as a hedge and an uncorrelated hedge to that process. And those are, on the one hand, gold and precious metals, particularly gold, because gold is money, everything else we can debate, but gold is money. And the other thing that you need to have is some level of exposure to real estate, private equity, basically. So ultimately, that is what gives you some kind of real return over time. In the case of bonds, they don't work anymore like that, because precisely the moment in which central banks became the lender of first resort, and the creator of money out of thin air that starts all of these processes. From that moment, what is the collateral of all that money printing? Bonds. So ultimately, what they're trying to do, and it's not even debatable, that what central banks and governments are trying to do is to make the value of those bonds that they issue diminish over time, instead of strengthening over time. We lived, in between 1950 to the period of 2004, 2006. In that period, we lived a complete anomaly in history, which was a process in which governments actually had an incentive for holders of bonds to make some money and to become richer. Which was to continue to show that those bonds which are the calling card, which are the business card, the image, or the credibility of the government, were actually generating wealth, and therefore were good investment. Today, it's the opposite. The central bank is taking care of that, you don't need to convince investors that they have to purchase your bonds, because they're attractive, the central bank is taking care of that and is monetizing them every time that it needs to. And then instead of having investors that look at your bonds, and according to solvency and liquidity, decide which one is good and which one is bad, you have passive investors that basically just follow the central bank. So the sovereign bond has lost its, let's say, quality of a real term generating wealth instrument.

Erik: Well, Daniel, I can't thank you enough for a terrific interview. Before we let you go, though, please tell our listeners a little bit more about what you do at Tressis. You're a fund manager there and chief economist and how people can follow your work. You've also written several books, and maybe you can tell us about that as well.

Daniel: Thank you. Yes, I've written four books in English. The last one is called, ***Freedom or Equality***. It talks a lot about all these things that we have discussed today. I also wrote ***Escape from the Central Bank Trap***, which looks at what can be done from a realistic perspective about the situation with excessive money printing. I also wrote, ***The Energy World is Flat*** with Diego Parrilla, which is a book about what is going on in commodities and what we expect to be the future for the commodity and the energy world. And finally, my fourth book is, ***Life in the Financial Markets***, in which I explain my experience as an investor throughout the financial crisis and beyond. It's very easy to follow me on Twitter @dlacalle_IA. I'm on YouTube, @DanielLacalleInEnglish, I have a website dlacalle.com, which is one part in Spanish and one part in English. So it's always easier to find me than to avoid me, I always say so, I think it's not difficult. And what I do is, basically, I'm an economist, I also teach at the IE business school about global macro and monetary policy. And I always have an eye on the markets. That's why I like to continue to be a fund manager.