Lyn Alden: Energy Security, Precious Metals & More

July 18th, 2024

Erik: Joining me now is Lyn Alden, founder of Lyn Alden Investment Strategy. Lyn, it's great to get you back on. It's been so long. Lyn, let's start with what you've been writing about this week, which is the way the market has been conditioned to rate hikes and rate cuts. What's your outlook?

Lyn: Right. So in the past cycle, we have kind of seen firsthand that the economy was more resilient to rate hikes than many would have expected. Basically, with the federal government having fairly short duration debt and most parts of the private sector having pretty long duration debt that's fixed, the economy was relatively resilient. As rate hikes occurred, the deficits got way larger, which in some cases, can be stimulatory for the industries that are on the receiving side of the deficits, and all that interest expense. And mortgages and corporate debt, a lot of that was shielded from that higher rate for quite a while. And so, one of the things I've been analyzing is to determine if that's going to be the case on the other side of this as well, if the US economy is going to be more desensitized to rate cuts than it normally has been in relative to other countries. So, from an American perspective, not a lot of Americans realize in other countries, homeowners, for example, are less likely to have, there's like a lower ratio of fixed rate, long duration debt, tied to housing in other countries. And so, they can be more sensitive to industry, it's on the up or down cycle. And so, this was kind of a perfect storm for the US being more resilient against rate hikes. And I think we can see the other side of this on the cutting cycle.

Erik: I want to integrate this view that you have with some of my own views and get your reaction. I've felt for quite a while now, like secular inflation is back, most people are in denial about it. And there's a point of reckoning coming for the market. When people finally realize, wait a minute, this attitude people have had of all these crazy high mortgage rates, you know, they'll come back down soon enough, maybe they're not coming back down, maybe what was crazy was the low mortgage rates. And maybe that's over now and not going to come back. I felt like the market just hadn't absorbed that reality yet. Are you saying that they are beginning to absorb it? Or are you really saying something different that doesn't lead to that conclusion?

Lyn: So, I think what I'm pointing out is that, even if you get moderately lower interest rates, that's not particularly stimulative. So for example, if I were to guess, what are mortgages, what are the yields going to look like two years from now, I would say probably lower than they are now, but not as low as the markets been accustomed to. And so basically, this was the first cycle in a long time where we had higher highs in terms of interest rates. So for 40 years, it was

like lower lows and lower highs, we got the higher high for the first time in a long time, and my expectation, for a variety of reasons, the fiscal dominance, the secular inflation backdrop, all these other factors, I think we're going to have a higher low in interest rates, both short duration rates and in longer duration rates. And that has a number of effects on the economy. So, for example, there won't be many mortgages to refinance to lower rates, if we don't get a lower low in mortgage rates. And so, I think that that's a base case that I'm going to expect, and that basically limits some of the effectiveness of rate cuts. In addition, the corporate sector, a lot of the debts are already locked in at low rates. So even if investment grade corporate bond yields come back down moderately, it doesn't really open a lot of stimulus aspects. It only really affects some of the shorter duration, or more rate sensitive areas. And it potentially has bigger impacts for, say, emerging markets, because they've always been pressured from tight monetary policy and their dollar denominated debt. And so, if you do get a softening of US economic data, and you do get some rate cuts, in response to that, it's quite possible that it wouldn't be very stimulatory at all for the US economy. And yet, it would relieve some of the burden in foreign markets. Especially, I think that this cycle could work a little bit differently than we've been accustomed to in past cutting cycles.

Erik: Now, you're still speaking in the future tense when you describe this higher low in interest rates, you're talking about it's still coming. What about the possibility that it's already come and gone, that we've already seen the low in interest rates and that there are no cuts coming? It's all hikes from here, just the market hasn't absorbed that reality yet? Would that be consistent with your outlook? And if so, what would it mean?

Lyn: Well, sure, that'd be a more extreme version of the outlook. And so right now, both the way that the Fed's pointing and the markets positioning, they're expecting some mild cuts later this year and into next year. Obviously, that can change with any given month or quarter of economic data. Some of the recent data has been on the softer side. So, my base case is that we get some cuts and that we see a little bit lower in, say short term rates, and then probably also parts of the curve, if that ends up not being the case at all. And if we actually just, you know, we've already bottomed in terms of rates and head higher, then everything I said would basically be amplified with the exception, that it means that there probably still be a lot of negative pressure on dollar denominated debts in emerging markets. So that's the big variable that would change, I think, if we see that the highs aren't even in terms of interest rates.

Erik: Well, that's where I think that we're headed, Lyn, but of course, that's just one person's view. I also want to touch briefly on the events of this past weekend with respect to the assassination attempt on President Trump. What's your take on how that is going to affect markets, the economic cycle, election cycle and everything else?

Lyn: Sure. I mean, obviously, that was a tragic and generational news event. So, it's always tricky to then just talk about how it's going to have financial impacts. But that's what we're here to do. Basically, when we look at, say, betting markets on the upcoming election, they were favorable for Trump in that regard. And so that's basically one of the takeaways, I think, is that as investors and as market participants, we changed the expectations a little bit around pricing. I

don't think it is that much of an impact in the sense that betting markets and polls were already slightly leaning toward him anyway, and so just solidified something that was already kind of being priced in. Generally speaking, it has a couple of different ramifications. One is that him and his newly announced running mate, JD Vance. They both have currently say pro crypto views, pro Bitcoin, pro crypto. So that affects that industry compared to the alternative. We also can pay attention to some of the prior tax cuts of Trump's prior administration. Some of those are set to expire in the next term. And whether or not those will be allowed to expire or whether they'll be extended or made permanent, will largely be affected by the election outcome. And so overall, I would say the digital asset industry is priced this in favorably. And then overall markets seem to probably view it as somewhat stimulatory because all else being equal, we can probably expect larger deficits because the idea of tax hikes is minimized, as well as kind of the regulatory stance that we can expect. So overall, for multiple asset classes, I think that they've rationally priced in a little bit of a bump. But that is not that different from what they were already pricing in before this event.

Erik: Now, I'm fascinated specifically by the angle about both former President Trump and his new running mate being pro crypto. What I think is actually more interesting is that they're anti-CBDC. They don't want to allow the creation of a US government CBDC. To me, that's even more relevant than whether they do or don't support Bitcoin. What's your take on that?

Lyn: I think that's relevant as well. I think that in the United States, given all the different moving parts between the central bank and the government, that that was not likely a near term outcome anyway, but that does obviously further reduce the odds of anything like that happening. Another kind of interesting position of Vance is that he has expressed the view that you normally hear from someone like Luke Gromen, about how the way that the dollar system is currently structured, hollows out the industrial base. But that's not something you normally hear from politicians. It's something that, you know, some financial analysts have pointed out the whole dollar Dutch disease or the Triffin dilemma, there's multiple ways to kind of phrase or to describe it. But basically, by having so much demand for dollars globally, it strengthens the dollar, it increases our import power, decreases our export competitiveness, which has the most impact on lower margin and physical industries. And so that's something that he has talked about. So yeah, when you look at Bitcoin, the broader kind of crypto security space, or CBDCs, or even the role of the dollar itself in its current form, all of those positions in that administration, obviously lean a certain way compared to the other administration. And all of that got repriced, partially from this event.

Erik: I want to go back to the repricing of markets and specifically the outlook for interest rates, because my sense of it is, markets are still discounting an expectation of some kind of campaign of cuts, not just one cut, but multiple cuts over a period of several months, in several meetings. I don't think that the market has really priced the possibility that there's either just one token cut, which I think this is something that is quite likely the Fed might do just to save face, because they've set this expectation that cuts were coming. But it seems to me like we're in a situation where the only reason for the Fed to cut is to fulfill an expectation that they set previously, and there might not be any cuts at all. Do you think the market has even begun to

price that scenario? And if it did start to price that scenario of no cuts at all, what would it look like for equities?

Lyn: So, I think that'd be negative for both equities and bond markets, partially depending on what catalyst changed it. Right now, for example, some of the data has been soft. So, it's not just what the Fed is saying. It's the data coming in. And then the Fed responding to that data, various Fed officials talking about those prints that have come in whether for inflation, whether for economic data, these slightly softening labor market. So basically, right now, the market is pricing in some cuts by the end of this year, let alone into next year, not having any cuts would be outside of my base case, as well. But if we do get that scenario, I do think it would probably see pressure in the banking system, or at least bank stocks, pressure among valuations of equities. If the reason was strong economic growth, basically, if they were various prints that came in, in that direction, that kind of holds off the likelihood of cuts that could at least be seen as constructive for stock earnings. Probably the worst-case scenario would be uptick in CPI data. Because at that point, you'd have kind of, you know, no necessarily improvement to corporate earnings, but you'd have an expectation of higher for longer industries, which would keep downward pressure on their valuations. So yeah, if the scenario that you described comes, that basically, everything turns out more hawkish than the market expects, both in terms of inflation data coming in hot or nominal economic data coming in hot, and the overall kind of mild cuts being priced out of the market, that would be troubling for a lot of asset prices. And sentiments are pretty high, volatility is pretty low. There's a lot of capital piled into equities. And so, I do think there would be a pretty significant risk at that point of correction.

Erik: Let's talk about the level of these equity markets. Just to start with, I mean, we've talked about a wall of worry first, a whole bunch of really smart people said, you know, the bottom is not in for the bear market, there's still going to be a new lower low, that turned out to be wrong. And then we've just seen one more high after another. Is this market overvalued? And is it waiting for a catalyst to bring on a correction? And why haven't we seen one sooner?

Lyn: So I think there are pockets of it being overvalued. If you look at kind of a median stock, the median stocks are not particularly expensive, their growth rates aren't particularly great either, but they're not particularly expensive. A lot of the valuation excesses are consolidated in kind of a handful of company types, generally things that are, not just mega cap tech, but basically any sort of like low volatility growth is generally where you see valuation excesses. So even stocks like Costco, for example, despite obviously not being a tech stock, is trading at rather high valuations both in absolute terms, when you look at, say, a price earnings to growth ratio, as well as compared to its long term, prior history. So basically, there has been kind of a move from investors into what they perceive as being very safe stocks, which basically means things that have growth, that growth being relatively bulletproof over their time horizon. Obviously, a lot of the big mega cap monopoly tech stocks fall into that category, but it translates into things like Costco as well. That's where a lot of the valuation pressures are, you don't really see valuation pressures in health care, or finance or energy. You know, mid-caps are kind of like slower growing dividend type of stock, you don't really see a lot of valuation

pressures there. But you do see a lot of these excesses in these kinds of perceived less risky type of investments.

Erik: Lyn, you've had some excellent calls in your past MacroVoices appearances relative to energy prices, specifically, you called $70 is the likely low on WTI, a couple months before it happened. And that level has really pretty much held ever since then, as well over a year ago, I think that you made that call. That's been the low. We're well off of that, now back into the 80s. But as we got up close to $85, it didn't seem to want to hold and now we're consolidating sideways, is that it? Is the rally over and are we headed back down to 70 bucks? Or has this maybe got some legs to the upside.

Lyn: So, in the near term, I don't have a high conviction view on that, I'd be purely speculating. One thing I've tried to do is position into energy stocks that do well even at current prices. So, if energies continue to chop along, they are cheaply priced for that scenario. They generate great free cash flow and payouts and then they have that embedded option in them, should we get much higher energy prices? The longer we look out, the more bullish I am on energy because that's where more and more fundamentals matter, more and more supply and demand factor in. So I'm a long-term energy bull, no particular view about the next quarter or two. If we do get that scenario that I described before, where US economic data softens a little bit and we see some cuts from the Fed, it's not particularly stimulative for the US, because a lot of that's already locked in at lower rates anyway. And if it ends up stimulating some of those dollar indebted global markets, and allows them to run easier policy and to expand more, that could be quite pro energy, pro oil price, energy bullish, because you could get a combination of a slightly weaker dollar index, or at least a broad dollar index. And you could get more economic activity and multi-year energy consumption out of a number of those highly populated markets, where they still consume way less energy per capita than we do. So even in that scenario, where, say, CPI comes in low or soft and labor markets coming in soft, we would normally think of that as not being particularly good for energy. But to the extent that that happens in the US and allows for cuts, that it allows for potential booms elsewhere, which results in energy consumption. On the other hand, if we get energy disruptions in any other scenario, and if CPI stays elevated and we don't get Fed cuts, then that obviously could put pressure on some of these markets I just talked about, but it's also potentially still good for energy from US demand, and just from whatever might have caused those supply disruptions. So, there's multiple paths forward for higher energy prices in the longer term. And my view is, my base case is, range bound to up, so I wouldn't be surprised to see falling back into the upper 70s, I wouldn't be surprised to just advance from here into the higher 80s. There's a lot of scenarios that could move that either way. And the way that I'm just positioning is to kind of view it as a cash flowing industry with a bunch of kind of call options on much higher energy prices that I expect in the longer term.

Erik: Well, then I definitely agree with you there. I don't have any strong directional conviction either. Let's move on to something that is going to definitely affect that directional conviction, though, which is the Chinese economic recovery. So many people thought that, really, it was going to be all about China in its recovery and the reopening that was going to define the

recovery of energy prices and so forth, didn't go that way. What do you think is going on that China has had, the issues that it's had? Where do you think it's headed, what do you see in terms of the outcome?

Lyn: So overall, we're continuing to see weakness in China's housing market, in overall consumer consumption. Basically, it's kind of the mirror opposite of United States. United States, we have fairly weak industrial production, but fairly strong consumer demand. China, we see the other side of that, where all the consumption stuff that's generally weaker, whereas their industrial production has been absolutely on fire in recent years. And so, I expect that trend to probably continue for a while longer. Generally, what we see in highly indebted private bubbles, like private debt bubbles, is you see rotation from the private sector to the public sector. So, you know, in recent decades, Japan went through that where that rotated from the private sector to the public sector, all those being equal, that was fairly disinflationary until it gets up to a very high level. In the United States, we saw that rotation starting with the global financial crisis, where some of the private debt, at least as a percentage of GDP I'm speaking of, rotates toward the public sector. So you can have a scenario where, even though absolute levels of private debt continue going up, when denominated currencies that are being debased their percentage, relative to, say, private sector assets, or relative to GDP, start going sideways to down. And we're seeing China go through a similar phenomenon now, where, for years and years and years, they juiced up their housing market, that's getting sorted out. They're doing it in such a way that, instead of it kind of all imploding at once, it's like the slow motion, destruction of capital and malinvestment and debt. And so, what we're not seeing is a major stimulus directed at the consumer or urgent attempts to restart their economy. So, my expectation is probably that continues for some time longer, which is where consumption is mild. I think it's earlier signs of mild reacceleration. So, consumer sales data out of China, to the extent that you can rely on it, has been a little bit better recently. And so overall, that’s probably going to continue to muddle along. So I'm never as bearish on China as the bears, and I'm never as bullish on China as the bulls.

Another thing that I think has gone really under the radar for China is their auto sector. So, I believe, in the past, call it three, three and a half years, their number of auto exports has hockey sticked, so they went from a very small auto exporter to, in a matter of years, being the largest auto exporter in the world. And we don't see that in places like the United States. But you see it in places like Egypt or BRICS countries, in general, developing countries. That's where these, like less expensive cars have really kind of taken market share. And all else being equal that, China's export industrial competitiveness has some disinflationary pressures on the world, because there's all that kind of industrial capacity, all that supply side strength. But if you bring it back to the energy question for a second, filling the world with a bunch of low cost vehicles that they couldn't previously afford, until they kind of reached these kind of lower levels, that actually opens up potentially a lot more energy demand, as you see the marginal person in a lot of these countries upgrade from say, a moped to a small car. And so, that's one of the long-term trends I'm monitoring is, as we continue to see bifurcation between West and East, I think there's maybe too much emphasis on China's domestic economy. I think that's probably going to continue to muddle through. And one of the things I keep focusing on is, how does China affect

these other markets? And generally speaking, longer term, I'm pretty bullish on that relationship, because I think we're going to see more and more of it, more cars coming out of China coming into those markets, more and more bilateral trade. And on some categories, that can be disinflationary, for example, vehicle prices, but in other categories, like energy, that could be inflationary.

Erik: Well, speaking of markets that are directly affected by China's activities, let's talk about precious metals next. Some people have speculated that it is China's central bank buying that has been chiefly behind this massive rally that we've seen. Other people have said, that has nothing to do with it. So, what is driving the strength in precious metals, gold in particular? Is it about central banks? Or is it about something else? And is it related to the other stuff you just described?

Lyn: So, like a lot of things, it's usually more than one answer. And that's true in this case, as well. I mean, we do see, officially, we see central bank buying at a pretty high level, in kind of East or BRICS type nations. I think something that doesn't get discussed enough is just private sector demand from the East. And so, if you're a Chinese citizen, and you see the housing market has not been doing well, the stock market has not been doing well, gold is one of their go-to, lower risk investments or savings vehicles. And so, I think whether you look at the government side, whether you look at the private side, there's a lot of demand structurally in the East for gold. And so, the combination of the US sanctions and confiscation of assets driving a lot of countries to at least develop backup plans or have less reliance on the dollar and Treasury market, that's obviously an ongoing variable. But as we see more and more West and East divide, I think gold is gradually reasserting itself as a neutral reserve asset, that if the country custodies it, if the person custodies, that it's harder to confiscate. I think it's reasserting itself into a global kind of long-term savings asset. And that's probably continued for a while longer. And if we do so, if we look at most projections, say, the New York Fed, for example, they projected that they expect balance sheet reduction by the Fed to end next year. And you know, I think if we do get some rate cuts, and we can end to balance sheet reduction, that should be pretty bullish for gold, all else being equal. And so the combination of the geopolitics behind gold, the bifurcation between West and East, and then the fact we've just gotten through a very aggressive tightening cycle, we see a number of developed markets, central banks, trimming their interest rates a little bit, even in a scenario where they end up keeping interest rates high. Some of them will probably have to go back to balance sheet expansion just because of their fiscal situation, if they want to keep their sovereign debt markets liquid and functioning, all of that should be pretty gold constructive. So I'm long term bullish on the metal.

Erik: Let's talk about the metal versus the mining shares. For the last several years, gold mining shares have badly underperformed a lot of people's expectations relative to the metal. Most people own gold mining shares, because they're expecting it to be a vehicle that gives them leverage to the price of the metal, they expect to get more upside on the stocks than they get from the metal. And the reverse has been true for several years. But just in the last few weeks, we're starting to see a little bit of life may be coming back into the mining shares. Does

that mean it's time to rotate into the miners? Are they about to have a big recovery? Or is the metal still going to continue to outperform? Where's the best place to be allocated here?

Lyn: So, I'm moderately bullish on them. I think, for most position sizing, I generally find gold itself to be a better risk adjusted position than the gold miners, which is kind of the opposite of my energy view. So, in the energy sector, I do prefer to own the producers. Whereas in the precious metal sector, I prefer to own the metals themselves. One of the reasons for that is, because I'm bullish on both gold and oil, and energy is a big input cost to miners in general, that for miners, you could get good numbers on the revenue side, but also high numbers on the expense side, if you have gold and oil going up together. So, I've been positioning larger in the metal itself and less in the miners, although I do maintain a nonzero mining position, should we get some sort of outsized move in them. Generally speaking, it's a very challenging industry. And in any sort of very challenging industry, where the majority of them underperform what they're mining and a handful really, really outperform that that's an area where being a specialist is particularly helpful.

Erik: Lyn, let's talk about Europe next. Needless to say, the first winter that we had during this war with Ukraine was almost a really, really serious energy crisis for Europe. And the second winter of the war wasn't so bad. As we look into the third winter, what is it going to mean for energy? And what do you think, in general, about the European economy and the economic challenges they face there?

Lyn: So that'll partially depend on any future disruptions that occur. My base case is not to see a spike necessarily, just because of how much LNG has come online. And they'd have those tools to deal with it. The darker side of Europe's energy stability is the deindustrialization that they've gone through. And so, you know, Germany has historically been the manufacturing powerhouse in the Eurozone, and they've had to shed some of their more energy intensive businesses that is no longer viable when you have less energy security and high average energy prices. And I don't really see that reversing in a sort of investable time horizon. If I was going to start or operate any sort of energy intensive industry, Europe would not be anywhere near the top of my list for where I would want to have that business. And so, I think that that's going to continue to, in some ways, save Europe's grid, but harm their economy. And, you know, I just got back from Egypt, I was there a month, and I've been watching their energy crisis kind of up front. And, Egypt itself is not a market that their energy is going to impact kind of global prices too much. But it is constructive for how other frontier markets, or in some cases, even Europe could have an issue. So, in Egypt’s case, they produce natural gas domestically, but they also import it from Israel and other neighbors. And then their goal is basically, during the summer, they consume it heavily for air condition, whereas other months, they don't. And so, they have LNG facilities where they hope to export it. But the problem is that Egypt's not been producing as much gas as they expected. So, they run into shortages, both last summer and this summer. And so then they get kind of rolling power outages, they literally don't have enough natural gas for their grid. They do have a nuclear power plant coming online in a couple of years, that will increase their electrical output by potentially 15%. But that's not coming online this year or next. And so, they've had to basically do these rolling power outages where they

kind of time different neighborhoods to be without power. And that's the less extreme outcome, but it's one that's still obviously very economically and socially disruptive. And there's all these like quirks that happen, for example, Egypt is designed to export LNG, it's not designed to input LNG. And so, if it has a natural gas shortage, there are frictions there about how it solves that problem. They've had to contract a very large vessel that does regasification for them, because they don't have the infrastructure. So not only are they buying the LNG, they're renting the infrastructure in order to make use of that LNG. And this is one particular example of an issue where if you don't take energy seriously, you can have pretty significant crisis, both economically and socially. It shows that energy is so intertwined, where it's not as simple as, oh, it was shorted, buy more. It's also the question of how do you buy it? And if you buy it, what form do you buy it in, and you have to get the infrastructure to build and make use of it. And I think we're going to see more snares like that in other countries. And if we do see more acute energy shortages, something like that could strike Europe where you have just kind of periods of time, where, not all the grid can be online at once. And while that's not an end of the world scenario, it does reduce its productivity, and it increases societal frustration. And then you get, in Europe’s case, you potentially then get more or outlier election outcomes and things like that, that can eventually have other financial implications along the way.

Erik: Lyn, a topic that's gotten a huge amount of attention recently is data centers generally, and AI data centers in specific, and particularly the energy demands that they're going to create and how those energy demands are going to compete with other users of those same energy resources. Where do you see all of this headed? And what's your take on its implications for markets?

Lyn: Well, so that's another one of the bullish factors that I have for energy. I like the fact that my bullish energy thesis doesn't rely on any one thing. There are a number of factors that together, all paint towards a pretty bullish future on energy prices, and overall energy demand. And AI, and the associated energy consumption, there is no different. Much like how we outsourced a lot of our physical labor to machines, there's a lot of mental tasks that we can and are outsourcing to machines as well. But all of that is energy intensive. That's a catalyst for energy demand growth in the United States over time, and even places like Europe can be impacted by that. And one of the things I've been focusing on is, say, the difference between AI datacenter needs and, say, Bitcoin mining needs. Because obviously, in recent years, Bitcoin energy usage is always a political topic. And it's something that comes up. But people aren't really, I think, ready for the types of AI demand, because when you look at, say, Bitcoin mining, Bitcoin mining is, it can tolerate low uptime, right? So it can tolerate being shut off. It's low bandwidth. So it can go into remote places where the stranded energy is and operate there. Whereas AI is specifically not really like that, in most cases, AI generally wants low latency, high uptime. And so it wants to be closer to population centers and with very reliable energy. And so that actually does compete more with residential and industrial electricity than Bitcoin mining does. And they can pay more because, in AI's case, more of the costs are in CapEx. Whereas in Bitcoin’s case, more of the cost is in the electricity, so that they're very sensitive to only paying the lowest electricity rates. And so basically, every fear that people had around Bitcoin mining wasn't really a thing. But some of those fears actually do apply to AI, that they can outbid

some other buyers, and that they do want to consume energy in the kind of the same spot where we live and work. And so, countries that don't get ahead of that, that don't manage their grid well, that don't make sure they have reliable energy, are really going to fall behind in terms of productivity, because they're going to have a ton of frictions. And in an extreme case, you get like what I just described in Egypt, where there's not enough power for all the things that want power and you have periods of outages. Or in Germany's case, you have deindustrialization, that's a scenario that multiple countries have to be on the lookout for, because there's always the risk of supply side disruptions. We've talked before about insufficient capex going into new supply of some of these dense types of energy. But now on the demand side, any forecast we had around energy demand, say, three years ago, are higher now because of these new technologies. And so, all of that is bullish. But all of that comes with pretty significant risks and frictions.

Erik: Lyn, I'd like to share a new prediction of my own with the audience and get your reactions to it, because you're the best qualified person I know to comment on this. I'm going to make the prediction that the AI guys, the AI boys and girls, particularly, are going to get into the energy business. And the reason I say that is entirely out of necessity. What I think is going to happen is, we're going to get to a situation where the data center growth trend is forced to stop. And the reason it will be forced to stop is because there'll be brownouts and blackouts, and so forth. And there'll be a public outcry saying these data centers are, you know, we should be giving the power to the people, not to the data centers. They're all owned by fat cats. And of course, the fact that it's the people that are using the internet that the data center supply, won't even occur to anybody. They won't put two and two together. They'll just blame the fat cats. I'm predicting that the AI crowd is going to recognize, hey, wait a minute, we're going to be put out of business if there's not more energy, and the only way to get more energy is for us to get involved because we're movers and shakers. We are entrepreneurs in technology, and we know how to make things happen. And all they have to do is take a look at the nuclear industry. And they will very quickly realize that what's going on is the technology to solve this whole energy transition problem with nuclear has been staring us in the face for decades. But it's not the kind of nuclear reactors that Westinghouse and GE and Rolls Royce and everybody else want to build. It's a different kind of technology. And we need some technology, entrepreneurship, competence to be inserted into the nuclear industry to get it back on track. So, my prediction is, out of necessity, the AI data center guys are going to get involved in providing energy to the rest of society, because that will be the only way for them to get more of it. What do you think, Lyn?

Lyn: I agree with that entirely. And basically, I think when you imagine a new data center being built, there's basically pressure on both sides. I think that, as these take more and more energy there, like you said, there will be people that don't want a new data center in their backyard, because they don't want the brownouts. They want the benefits of being able to use it, but they don't want the data center near them. On another hand, if you're the one paying for a new AI data center, you want to be sure that you're going to have reliable power in that area for quite a while. And so, you're going to be cautious around going into places that don't have reliable power, or you're going to want to bring your own reliable power with you. And I agree with you that nuclear is the obvious choice, especially newer nuclear technologies. And so, I

continue to be structurally long term bullish on uranium. And I do think that in the years ahead, this is a pretty significant catalyst for a nuclear renaissance, both in terms of overall nuclear power generation, but also, like you said, the types of technologies that are used not just building the types of facilities we did decades ago, but building entirely new types of facilities. And I'm bullish on that whole space. I mean, there's frictions that can come along the way, any jurisdiction that fails to navigate this, is going to go through frictions, because either their people are not going to access AI as efficiently as places that do manage energy better, or they're going to get to access AI, but then they're going to have energy constraints elsewhere. But as we get through those frictions, I think it's very bullish for energy, in general. And I think that that is something we're going to see. And I think all the incentives line up well for those AI companies to make sure they secure their energy. And then in addition, they have a lot of influence and lobbying power to help bypass some of the frictions that we've seen in nuclear for decades. So I think all of that comes together to be pretty pro nuclear.

Erik: I couldn't agree more, Lyn. And specifically, what I'm predicting is, right now we're in this phase where the boys and girls have data centers and AI haven't really figured out the nuclear landscape yet, because it is fairly involved technically, you got to go learn all about it and figure out the pieces. Once they figure it out, and you're seeing evidence of that already, they're trying to figure it out. You look at what Sam Altman is doing backing Oklo, which is a company that's almost on the right technology, they get it, they understand that building more water cooled nuclear reactors is a stupid idea, that we need breeder reactors. Now Oklo is focusing on fast neutron, uranium breeder reactors, I think they ought to be focusing on Thorium and Molten Salt. But, you know, that's just my personal opinion on something. The point is, they're doing the right thing on the level of recognizing that we need to stop screwing around with light water reactors and invest in breeder reactor technology that uses the fuel efficiently. But they're not quite on the right technology yet. I predict that what we're going to get to is, there's going to be an overtaking of the nuclear industry where all of the dinosaurs of nuclear that are change resistant, are about to get run over by a very tech savvy group of people who can very quickly understand where this industry got taken off track 40, 50 years ago, and what to do to put it on track. And I think it's going to be a major revolution. We'll see what happens. In any event, before I let you go, Lynn, I just want to ask you to tell our listeners a little bit more about what you do at Lynn Alden Investment Research, what people can expect to find at lynalden.com when they go to check out your writings there, and how they can follow your work.

Lyn: Sure, thanks for having me. Lynalden.com, I provide free newsletters and articles about various subjects, macro digital assets and energy, in particular. And then also, I provide a low cost research service that comes up more frequently and covers these things in a little bit more depth. So, people can check out the various options there.

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