Brent Johnson: Macro Drivers of UST's, PM's & The Role of The BRICS

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Erik: Joining me now is [Santiago Capital](#) founder, Brent Johnson. Brent prepared a [slide deck](#) to accompany today's interview. Registered users will find the download link in your Research Roundup email. If you don't have a Research Roundup email, just go to our home page [macrovoices.com](#), click the red button above Brent's picture that says, *[looking for the downloads](#)*. Brent, it's great to get you back on the show. Something you and I have been talking about for years is the long-term plight of the US dollar, and particularly, whether or not any realistic threat is posed to it by the alliance of nations known as the BRICS: Brazil, Russia, India, China. I Think it originally was South America there, but there's been quite a few kind of BRICS+ that have been added to that other countries joining that kind of anti-US dollar bloc. It was laughed off in the finance community when it first began. How's that headed? What's that story look like? Is it something that we need to worry about?

Brent: Well, it's something that I've always followed, and I've always found interesting. But I am probably, to be fair, one of the people that have somewhat laughed not at the BRICS themselves, but at the people who think that just because the BRICS countries get together once a year, throw a big party and talk about doing a lot of things, that that automatically means that the dollar is done, and the days of American hegemony are over. One of the things I like to point out is that, for everybody that thinks that the BRICS are going to launch this currency in some kind of a basket of their currencies, maybe add some gold or oil to it, you can do that right now. Go buy all five of their currencies, buy some gold, buy some oil, and you've got the BRICS basket. The problem with that, while gold has done phenomenally well, oil has kind of gone sideways for several years, and the BRICS currencies have all fallen 50% or more versus the US dollar, with the exception of the yuan, which has only fallen a little bit, and that's because it's a pegged currency. So, I think people get a little overzealous in the rise of the BRICS, mainly because I think many people want to see the fall of the American empire. It's definitely an area that needs to be taken seriously and looked at. But just because there's a headline that says they are thinking about doing something, doesn't automatically mean they're going to be able to successfully do it.

Erik: Well, I think that begs an important question. One thing I'm in very strong agreement with is, those BRICS nations, regardless of the question of how much influence they do or don't have, they very much do want to bring about a fall of the US dollar. It's not speculation. They've been perfectly clear in their messaging, saying, we think the problem in the world is that the US government gains too much power from its status as reserve currency, we're going to do something about it. Now, it's very clear, from what you just said, you're not bought into the idea that they're going to push a button and make the dollar crash. Do you think they do have a long-term influence that is meaningful and important enough to pay close attention to? And if it's not crashing the dollar, what is it?

Brent: Again, I think there's a difference between, are these important, meaningful, influential countries, and can they crash the dollar? To me, those are two totally different things. They're absolutely important, influential countries. You look at the population that is in the BRICS, and it's a huge percent of the overall population. You add up all the GDP, it's a significant amount of economic growth and power. But again, the transition from a system where the dollar is entrenched in global commerce, not just in the United States, but literally in every country in the world, even very much in the BRICS, it's not as easy as just saying we want to leave the dollar and then doing it. The other thing I would point out is, whenever we see these BRICS conferences and these headlines, it's always the politician saying, this is what's going to happen. I have yet to see any of the business leaders in these countries get on stage and say, wow, I am very excited to use this new BRICS currency, or this new BRICS pay, I think this is going to be a hugely efficient profit, driving enterprise to switch what we've been doing and go to this new system that has never been tested or used. And at the end of the day, businesses are what drives economies, not politicians. Now, don't get me wrong, politicians have a lot of power. Governments can enforce certain things, but I don't think the transition from the dollar system that we currently have, even in these other countries, to a new BRICS pay, or a new BRICS currency, or some new system that they agree amongst themselves, would be peaceful from either an economic perspective or from a military perspective, to be quite honest. And I think in that volatility, I think the dollar would rise. And as you know, I believe that as the dollar rises, chaos abounds, and so I just don't see how this transition could ever take place without significant volatility.

Erik: Let's move on to talk about foreign holdings of US Treasuries. Because, of course, if you're the gold bug conspiracy theorist, you're going to say, well, what's really going on Brent, is the reason that gold is rallying so much right now is that the central banks around the world, they do understand this, they're dumping the dollar. They're going to gold instead, man, that's what's going on. I read it on the internet, so it's got to be true. Probably a little bit of room to put different perspective on that. Help us out.

Brent: Well, so it's not that that's completely wrong, right? Central banks have been buying a lot of gold over the last 10 years, and especially over the last 3 or 4 years, and they have been buying more gold than they have for a long time, so you're seeing that reflected in the price of gold. But the reason I put this chart in here is to show that even though…

Erik: Which chart number are we looking at, Brent?

Brent: Sorry, we're on page 22. On page 22, it just shows that the foreign holdings of US Treasuries has never been higher than it is today. So, it's not as if there is a huge Treasury strike by the rest of the world. But that said, I'm the first to admit that the central banks have been buying gold in addition to treasuries. And if you go to page 23, which is the next slide, you can kind of see that large foreign holders of from a big perspective, it shows the largest holders of treasuries. And you know, some of the biggest ones has been pointed out, are these tax havens, Belgium, Luxembourg, Ireland, the Cayman Islands, right? These are not exactly hugely populated countries that are known to have enormous GDP and capital. So, who are these people doing these buying? Well, the reason I put this in here is there's actually a reason that you see these countries like Belgium, Luxembourg and Cayman Islands being large buyers, because if you are a foreigner who wants to buy US Treasuries, you have to do it in a vehicle that doesn't get you taxed. So many people may not know this, but if you are not a United States citizen, the United States is the biggest offshore tax haven in the world. That's where everybody offshore wants to put their money, because they get a preferable treatment for doing so. But when a foreigner invests in the United States, if you open an account in the United States, you still have to fill out a tax form, and if you don't have a tax ID, then that firm, whether it's Fidelity or Bank of New York, they're going to withhold taxes. If you don't fill out this form that specifies what your tax status is, and the way they get around that is, they invest in a vehicle in the Cayman Islands, in Belgium, in Luxembourg, and that vehicle then has a tax ID number and it's not taxed. And that is how those foreign entities, or those foreign investors invest in the United States without being exposed to United States tax law. The reason I know this is, the way it works is, I have managed personally funds that do this. And we had a client one time, when we got the client, they were invested directly in the US, and they opened an account directly in the US, and they had huge tax withholdings in their account, and it was a nightmare to figure it out. And so, what foreigners typically do is, they will invest via a Cayman entity, an Irish entity, a Belgian entity, and then that entity can invest in the US and avoid all these tax problems. So that is part of the reason. I know there's a lot of conspiracy theories around, why does a country like Belgium, why are they one of the biggest holders, why is the Cayman Islands, a small island in the Caribbean, a huge owner of treasuries? But that is at least part of the explanation.

Erik: Okay, hang on a second, Brent, because if we're talking about foreign investors in US Treasuries, you're absolutely right that they need to file Form W-8BEN, in order to tell the IRS who they are and where they are, but they don't have to be any place. They're paying taxes, as long as they fill that form out, portfolio interest, including interest from Treasuries, is non-taxable to foreigners in the United States, provided that they just fill out the registration form. So, it seems to me that what you just described, unless I'm missing something, would really only apply to special case investors that, for some reason, just hate the US government so much that they don't want to disclose anything to them. And to miss the chance to invest in US Treasuries tax free, because you weren't willing to complete the information on form W8, boy, you must be really hiding something, is the way that comes across to me. What our mutual friend Luke Gromen has suggested is, wait a minute, what if what's really going on here is, this is hot hedge fund money, you know, it's the Cayman Islands. Those are also places that master funds for global hedge funds, global macro hedge funds are operating there. And he thinks what this means is those are not sovereign holders. Those are not countries like Belgium investing through other entities. Those are hot money investors, the kinds of investors that invest in hedge funds that are likely to completely abandon their conviction and their strategy, and run the opposite direction and turn on a dime. He sees that there's more risk of volatility. It sounds like you think that it is money coming in through those same kinds of offshore, Cayman Islands kind of places, but it's more likely to be sovereign money coming in. So, how do we know what money is actually flowing in, through these potentially tax haven places?

Brent: No, I think perhaps the way I explained it did not come across clearly. I would agree with Luke that it is these entities. It is either hedge funds or private equity funds or some kind of offshore entity funds in which individuals from around the world have invested, and then those vehicles have invested in Treasuries in the United States. But my point is, is that the reason that's coming in from those countries is those are the countries that very wealthy individuals use to access United States markets. So, I think what I'm saying is, I don't know for sure the exact strategy that these entities are using, neither does Luke, neither does anybody else, except for those who are actually running the funds. But I'm explaining that that is why these smaller countries are such large holders.

Erik: Okay, but I think we could all agree that if you just look at those funds, that category of hedge funds and so forth, their investing characteristics, of course, are unique to whoever's running the fund, as you said. But, on the whole, their style is rather a lot different than, say, central bank managers of holdings. So, we're talking about a totally different kind of money. And when people say that it's, you can't say that foreign holdings of US Treasuries are collapsing. They're not. We're actually at an all-time high. You got to look at the data. Well, wait a minute, if I look at page 23 in your deck, what I see on the red line, I wouldn't say quite crashing, that's Chinese holdings, or the blue, line Japanese holdings is down trending, not crashing, but definitely down trending pretty hard, and opposite direction the increase that's occurring at the same time in terms of those hot money sources, Cayman Islands and so forth. So, it seems to me like what's really going on is, central banks are exactly as Luke had suggested, very actively divesting their interest in US Treasuries as a central bank reserve asset. But the data is being clouded by the fact that, at the same time, for whatever reason, hedge funds in the Cayman Islands and other hot money sources who have very, very, very different characteristics in terms of how long it takes them to panic out of a trade. Those are the guys that are making up the difference to the point that when you just look at the simple data, which is the chart that we looked at on page 22, it appears to give the opposite conclusion from foreign central banks are selling off their holdings, but page 23 reveals that they really are.

Brent: Well, it's funny, because we're going to talk about that in a couple slides ahead. But the one point I would make, Erik, is that for years, and you know this, and for people who don't know this, you know I started talking about this Dollar Milkshake Theory back in middle of 2018, and in January of 2019, Erik's conference in Vancouver was the first conference I spoke about it publicly. And one of the arguments that I made at that time was that wealthy foreigners around the world, would choose to invest their money in the United States, as opposed to domestically, and that you would see increased investment in the United States in the years ahead. Many people said, no, that has already happened. The investment has already taken place. It is no longer going to take place. But I kind of took the other side, and I think this chart does a good job of showing that entities, smaller entities, and very wealthy individuals who invest in these vehicles and these offshore havens, have made up that difference in, to your point, have made up the difference in the central banks, and therefore, the overall holdings by foreigners of US Treasuries has continued to rise.

Erik: Okay, so we're very much in sync on what's happened. It begs a really obvious question to me. Which is, okay, hang on, if what seems to be going on is central bankers around the world, who a lot of people, although I don't agree, frankly, a lot of people, seem to think of central bankers as the ultimate gurus on sovereign debt. And you know, knowing where it's headed, that those guys seem to have all en masse, gotten bearish on the US dollar, and that's inspired hedge funds to want to buy it. What's the rationale? Why is the hot money suddenly so interested in something that central bankers are stepping away from?

Brent: You have to understand that it's a relative world. Money has to go somewhere, right? And if you don't want to put all of your money into equities, and you don't want to put all of your money into gold, and you don't want to put all of your money into Bitcoin, you probably still do want some exposure to fixed income. Many large investors out there, despite the fact that many people think that Fiat loses value over time, and bonds are a horrible store of value, it's not that I disagree with those, but there is still huge demand for fixed income around the world from a number of different sources. And if you're going to pick a fixed income, why not pick the one that is in the United States, and is paying a better yield than just about anywhere else. So, I think that explains a lot of it.

Erik: Okay, Brent, I think I've got it now. So, what you're saying is that central banks really are selling off US Treasuries, that's pushing the price down. At some point, the price gets down to the point where there's a value trade there, and smart guys running hedge funds say, hey, we could see the mechanism here. We know it's political, but we know that these Treasuries are a bargain. Once it gets down to this price, meaning, this high of a yield, we know this is a bargain. We're going to grab it. You think that basically, the actions of central banks that are politically driven are creating bargains and markets that smart guys running hedge funds are scooping up.

Brent: I think that partly explains it. And this is kind of the point I was trying to make. Again, back in 2019, people would always ask me, who's going to buy the debt? Who's going to buy the US debt? And I said, the whole world will. And I think this chart does a pretty good job of showing that foreigners are buying the US debt.

Erik: Page 24 breaks this down some more. What's going on there?

Brent: So, I wanted to point this out, because I think a lot of times I will hear, since 2014, foreigners are no longer buying US debt, and this is hailed as some great schism in the markets that is going to lead to the death of the United States or the fall of the American empire. What's going on in the next three or four slides is to show that this has happened in almost every major country. So, it has happened in Switzerland. And then if you go to page 25, it's happened in Austria, it's happened in Belgium. It's happened in Finland, France, Germany and the

Netherlands. You go to page 26, it's happened in Greece, Ireland, Italy, Portugal and Slovenia. And if you go to page 27, it's happened in Australia, Czech Republic, Denmark, New Zealand and Sweden. So ,again, you have to remember this is a relative world. Capital has to flow somewhere. Now, if foreigners were selling bonds from the United States, and they were actively putting it into other countries, then I would say, holy cow, maybe that's something that really needs to be concerning for the United States. And it's not that it isn't concerning for the United States, it's just that it's not a uniquely American phenomenon. This is a global thing, and it's because it's a relative game, and capital is going to go to one of the players. You have to understand that it's not just happening to the United States, and it's happening to many countries around the world.

Erik: Let's move on to page 28, because I think as we look at a specific nation like China, there's more insight, at least to my eye here. If I look at that peak of Chinese holdings as, what is it, around 2013 or so, if I just think mentally through geopolitics, I feel like I'm looking at a slide of US foreign relations with China here. Oh, it's a Treasury holding slide, I see, it's a finance slide from the shape of it. I thought it was something else. Seems like there's a correlation there.

Brent: Yeah. So, this chart is the Chinese holdings of US Treasuries. And there, you've seen many charts like this, either with China, or Japan or Saudi Arabia. Now, where Japan has actually added treasuries, a lot of times, you will see these charts showing that China and Saudi Arabia have dramatically decreased their US Treasuries. Not only have they not been buying as many going forward since 2014, but they've actually been selling since 2014, and you can see that it actually really picked up speed around 2020, after COVID, when the government lost its mind and started printing all this money, and yields rose. And as you know, because people were not buying Treasuries, yields rose, and then Treasuries crashed, right? And that people sold a lot of them, or countries sold a lot, now, this is China specifically. But here's the thing that I want to point out with regard to this chart that many people either don't know or think they know and are incorrect. And what I mean is, these charts do not reflect the number of bonds held, these charts reflect the value of the bonds held. The form that goes into the data, the data that goes onto these forms that then gets into the US Treasury, that then go into making this chart. If you go to the next page, on page 29, it explains what that data comes from, and that data comes from purchases, sales and fair value changes of long-term securities. The reason this is important is because, while there have no doubt, been some Treasury sales by Saudi Arabia and China over the years, that is not what that chart is reflecting. That chart is reflecting sales, but also change in fair market value. And the reason you see such a dramatic fall starting around 2021 is because that is when interest rates started to rise. If you go to page 30, the white line is, I've zoomed in on 2021 until 2024, the green line and the aqua line, that is the price of the 30-year US Treasury and the 10-year US Treasury. And while a lot of people will look at that chart, the white chart, and say, wow, holdings have fallen by 20% or 30% over the last couple years, China is doing a fire sale of Treasuries. No. What has happened is, as interest rates rose, because the Fed took rates from 0% to 5%, and the long bond went up as well, or the long rates went up as well, Treasury prices fell 20% to 30%. And you can see how it tracks almost month for month with the price of those bonds. Now, unless you think that China is day trading US Treasuries, this chart pretty much shows that a lot of that fall is due to the change in price.

Now, the other thing I'm going to say, before I forget, is I have had many people tell me that is incorrect. Brent, this chart is reflecting sales. And before anybody gets crazy and says, I don't know what I'm talking about, I have spoken directly to the US Treasury about this on more than one occasion. I have emails from the US Treasury confirming that I have this correct, and I have spoken to them about how they actually gather the data that then goes into the Treasury report, that then ultimately gets put into these types of charts. And I'm telling everybody, just for absolute clarification, these are not nominal, these are current market value of the bonds.

Erik: Okay, Brent, this seems profoundly important to me, because I don't think there are many people, including in pro finance, who fully understand what you just said. It seems to me, since you do understand it, there's a really great opportunity here for you to make your own chart by grokking and processing this data and saying, show me this, but also show me an adjusted version, if you back out the effects of interest. You know, if you look at what happened to the price, because you've got market data for every single day, what the price of those Treasuries was, if you just take the price out of it, so that you turn this into a nominal chart, by using the price to calculate the nominal data, you could plot the actual nominal chart that's showing this really in number of bonds, and get the chart that the other people think they're looking at, put your name on it and get famous. Have you done that yet?

Brent: I have not done that because, while what you say is certainly possible, I just haven't gotten around to doing it. But one thing I would say is that there's already a challenge that I know that will come out, and they will say, yes, Brent, but a year ago, year and a half, I don't remember the exact date, sometime in late 2022 or 2023, a change was made, and they went from the old form, I think the old form was called the LT form, and the new form is called like the SLT form or something. And the new SLT form, this is the Treasury International Capital Group that collects this. On the new form, they actually have it broken out. So, it used to just be one number that included sales, purchases and valuation change. Because they wanted to kind of break it out specifically, kind of like what you and I are talking about, they changed it. So now there is, when people fill out these forms, there's a section for sales, there's a section for purchases, and there's a section for valuation changes. You’ve got to remember, these are government agencies that are doing this, and it's kind of a voluntary, they send out the surveys to all the big custodians, and then the big custodians, I can't remember if it's on a monthly or a quarterly basis that they update these, they have to fill them out and send them in. Now, I'm not trying to make fun of anybody, but this is not the CEOs of these custodians filling out these forms, right? And the Treasury, I've spoken to the Treasury about these forms, these new forms, are only like a year, year and a half old. They do not have high confidence that the forms are being filled out 100% accurately. Again, this shouldn't be surprising. You know, inefficiencies in government agencies and things don't always work out perfectly, and they said, it's very possible that sometimes that when the forms are being filled out, they're filling them out as sales, when really they're just looking at the change in valuation. But again, I just want to be absolutely clear, regardless of whether or not China is selling Treasuries, which I am sure they have sold some, this chart does not 100% reflect sales, but this chart that I'm showing you here makes it pretty clear to me, and it was pretty clear to the people at Treasury that I was speaking to, that this chart does, in fact, reflect change in valuation of Treasury bonds.

Erik: Brent, let's move on to a subject that is near and dear to many of our listeners and to me, that's gold on page 31. We look here at a textbook cup and handle pattern. Very nice, clean breakout. But hang on, at least as I chart the target of that cup and handle formation, it's around 2725, okay, we're there exactly. It seems like at least the initial target, we already made it. Does that mean it's time to dump your gold and expect it to be all downhill from here?

Brent: I knew you were going to ask me this question, Erik, and when I was thinking about it earlier today, I was laughing, because I already know how this is going to be received by those in the gold community who think you should only own gold. So, you know as well as I do, that I have been bullish on gold for years. Owning gold in the portfolio has been a key part of my whole Milkshake Theory. One of the most controversial parts of the Milkshake Theory, when I first started talking about it, was that the US dollar would rise versus its Fiat peers, but yet, gold would still rise as well. The strong dollar would not necessarily negate gold rising. And so, gold has done phenomenally well. It broke through this cup and handle formation that you mentioned earlier. I actually think that, while I would not recommend selling your gold, I do not think that people should rush out and just because the price has gone up, start dumping it. I don't think that gold is going to, "crash," but I bought puts on it a week ago, and it was at 2675 because I think it's just come a long way. It's up like 35% for the year. That's pretty darn good, right? And I've been doing this for 25 years now, and markets don't go in straight lines, so I think it's probably due for a pullback. Again, I don't think that people should go out and sell their gold, but don't be surprised if this pulls back a little bit. Now, having said that, it will not surprise me at all if gold goes to 3000 bucks in the next year, or maybe 3500, but I think about gold much differently than most people. I think there's a lot of people who own gold as a way to get rich. I own gold for insurance. I honestly don't even really care whether it goes up or down. I'm going to own it regardless of whether it does or not, but looking at this chart, this is a pretty darn nice looking chart. It's hard not to look at this chart and get a little bit excited. I just think it's gotten a little bit ahead of itself.

Erik: Brent, let's move on to page 32. Does this give us more insight into why you've been cautious?

Brent: Well, yes. And so, this is a chart that, and it's funny, like a lot of things, people will look at the same chart and come to two different conclusions. What this shows is, the price of gold charted versus the commercial short position on the Commitment of Traders. Now, the commercials, they're the big banks, the bullion banks, they take the opposite side of the speculators, and I'm showing about, I think this is about 10 years of this chart. And in general, as the price of gold rises, the specs typically pile in. The commercials take the other side of that. Historically, when it has gotten this extreme with the price to the upside and the commercial short to the downside, you will, often times, and you can just look at this 10 year history, it's pretty clear that there's an inverse relationship, and it will eventually revert back. Now, there's a catch. It is possible the gold keeps going up, and the commercials are the ones that have to cover their shorts, and you get an epic short squeeze, and gold goes to 3000, 3500, whatever the number is. I'm not sitting here and saying that that can't happen. I'm just saying historically, that is not what has happened. And so, this is one of the things that gives me caution when I look at all the specs that have piled in. When I look at the commercials that have their, probably their second biggest commercial short position or net short position in history, when I look at sentiment in the gold market, and when I look at relative strength in the gold market, everything is near its all-time high. Now, I don't like buying anything, I don't like buying Apple at an all-time high. I don't like buying Nvidia. I don't like buying oil. I don't like buying gold, silver, or anything else at an all-time high. So that is why, that's part of the reason why I am cautious.

Erik: Okay, hang on a second, Brent, because what you said a minute ago, I've always thought of as a fallacy or a myth in the Gold Bug community, which is, when people say, you know what's happening, those commercial shorts, they're finally going to pay their dues for their evil position, or whatever people think, they're going to get squeezed out. And that's what's driving the big rally. The way that's always been explained to me by the grown-ups in the gold community, is to say, you don't get it. The commercial shorts are not speculative traders. They're not in a short situation where they could be squeezed, those shorts are hedging long positions in physical metal, or they're hedging something else, and the bank is already Delta hedged. They can't be squeezed out of a short position because the short is just a hedge on a long, and they have no market exposure when the market goes up and down, and that's just a situation where gold bugs are confused and don't understand how the market works. That was what I was expecting you to say, but you didn't say that. You kind of said the opposite. So, what am I missing?

Brent: I don't think you're missing anything. I'm actually glad you brought that up and pointed that out, because I think there is this big theory out there that this massive short position is just, you know, it's a ticking time bomb. And the point I wanted to make is, I cannot 100% refute that, but it doesn't typically work that way. And the reason it doesn't typically work that way is exactly for the reason that you just explained. The other thing I would say is, there's a lot of people who will say that the shorts are just the producers who are hedging their production. And the thing is, if you actually break this down into a disaggregated way, you will see that the producers are only about 20% of the short position. So, in other words, when some people will say the commercials are just the producers hedging, well that is not true. Only about 20%, maybe 25% of the commercial short position is producers that are hedging. So, to your point, I think the best way to summarize it, because of the reasons you said, there is not this massive short position that the bankers are going to get squeezed. It's not that it couldn't happen in any circumstance. It's just that it typically doesn't for the reasons you said. And it's not just hedging of production by the actual miners. And so, again, I think, people just remember, markets don't move in straight lines, and the more something does move either up or down in a straight line, the more it is susceptible to extremely fast snapbacks, whether to the upside or to the downside. And so, when you see a market that's going straight up, that is always a time to start looking of how to protect the gains that you've made. It doesn't mean you have to sell. Doesn't mean you have to give up on the trade. It doesn't mean that you hate gold. It just means that, hey, you've had a really good run. Let's be prudent.

Erik: Brent, if the price of gold was $200 lower one week from today than it is right now, would that cause you to dive on it by the dip? Got to take advantage of this opportunity to lever up. Or is that a signal that says, okay, wait a minute, the direction is changing. This could be a medium-term thing. It's time to increase the hedges here?

Brent: Well, I think the answer sort of depends on, why did it come down $200. So the way I…

Erik: Just look on the internet, you'll get a clearance explanation that that has to be right.

Brent: I think that this is the way I'll answer that. If you do not own any gold, you should absolutely own some. And so, if you don't own any, it doesn't really matter what the price is, you should buy some now. Hopefully you've been listening to MacroVoices for several years. You know, you and I have talked about this several times. You've talked about it with many other guests over the years. Hopefully your listeners already own gold. I'm guessing that most of them do. So, if you've already bought gold, whether it was last year, 2 years, 5 years or 10 years ago, you don't really have to buy more now that it's all this way up here, right? And if it does pull back, and you have some cash, then maybe, if you want to increase your exposure, perhaps go for it. So, this is a long way of saying, I already own gold, so I don't have to go buy more of it if it pulls back, but if it does pull back, I will most likely be looking to add. I'll have to wait and kind of see when it gets there.

Erik: Now, going back to page 31, as we already discussed, if you understand technical analysis and where a cup and handle pattern would normally target, boy, it's awfully hard to add or put new money to work on the long side of gold on page 31. Feels like you kind of missed the trade here. Nothing you can do about it. Wait a minute, page 33 looks like the same chart, but this one hasn't really moved yet. Does that mean that silver is not as strong as gold, not the best choice because it hasn't moved yet? Or does it mean it's a better choice because it's about to move and follow gold and move much higher?

Brent: Well, there's a couple things going on here. Now, the interesting thing that I have to tell you, when I was here on your show in May, was kind of when silver had just started to break out. It was right under 30 bucks at the time. And I had bought some puts because I said it was going to pull back. And it did pull back. We made some money on those puts. And everybody was all over me, saying, you know, you're going to miss the trade, this is the trade of the century, if you don't own silver now, you're never going to own it. And what I said at the time, and if people want to go back and find that episode, there was a slide that went with it. I said, if silver can break through this resistance at kind of the 30, 31, level. And if it goes up to, 33, 34, 35 and then pulls back to 30, that's probably the place to buy it, because now, it could really rocket higher. So, what I am looking for is for silver to come back. If it bases around 30, then I will probably buy some silver, if it goes back to 29 or 28 and continues on down, well, then I'll just wait for 30 again, right? And so, there's a lot of people who say, for some reason, think I have to own silver. And, you know, I don't own silver, and I don't have to own silver. And if I don't want to own silver, I don't have to own silver. But I do think that this is setting up for a fantastic trade, if, I don't like how far, I mean, it went up like 5% or 6% just on Friday, as it kind of busted through that resistance, I would like it much better if it kind of pulled back and kind of based for a while around 30. I don't want to see it rocketing higher, and I don't want to see it crashing back below, because I think neither one of those, I think, would be healthy. I think what would be very healthy is if silver pulled back to around the 30 level, kind of based there, kind of worked off some of the commercial short position that it has. You can see that on the second slide as well. And then, you could perhaps see the same type of phenomenon that you saw with gold

Erik: Brent. Something that really fascinates me is that if you talk to the gold bugs and the silver bugs, their biggest complaint for decades has been, we'd be making so much more money but it's those stinking central bankers, because there's a conspiracy. There's a cabal. They're manipulating the market. It's market manipulation. And the big, big evil fear or enemy here is market manipulators. Market manipulators are bad. Stay away from markets that are manipulated. Okay, is Wall Street silver, that's the silver bug, you know, their side, very actively and obviously engaging in market manipulation over this crowd sourced internet collaboration. That's what they do. That's their purpose for existing. How is that not market manipulation that would cause you to step away from an asset?

Brent: Well, I mean, in short, it is, right? Now, the people on the internet clearly don't have as much power as a central bank or a government, so it's not to the same extent. But in short, to answer your question, it, of course, is. But what I find even more interesting about that whole phenomenon is that, for years, they were complaining that the central banks were manipulating the price of gold lower by selling it. They did not like that. They didn't think the government should be involved in the markets. The markets should be left alone. But now that the central banks are buying gold and pushing it higher, now it doesn't seem to be a problem. I haven't heard one person complain that the central banks are manipulating the price of gold higher by buying so much of it. So, listen, I can't sit here and say that for sure, that there's not been a time where governments have suppressed gold. Clearly, you can look at, there's historical documents that show that it has been a matter of policy at certain times. But I'm not somebody who thinks that every day that gold falls, that's it's manipulation. And if they are manipulating gold lower, they sure as hell have done a really bad job of it, because it's sitting at 2700 bucks right now.

Erik: Brent, I'm shaking in my boots for page 35. Normally, I talk to my guests about this and that, and I say I said this once, and they say that they said that once, and occasionally we make a mistake and somebody holds us to account. But you came to this interview prepared with evidence of what you really said and what I really said. So, what's going on here?

Brent: Well, I'm basically just saying that, you asked me if I, because I think when I was on, gold was near its high, and you said, well, would you short it here? And I said, listen, I'm never going to short gold. The reason I wouldn't short gold is because you could literally wake up tomorrow and gold could be at $5,000 if war breaks out, or if some central bank fails, or whatever it is. You know, gold is an existential trade, right? And the reason it's always hard to kind of sell gold on a breakout or when it's going up, the reason it's hard to sell a spike in gold, because it is such an existential trade, a lot of times, the reasons gold is going up is fear, uncertainty, doubt of what's going to happen in the future. But the point I would make is that, it doesn't mean that you can't take some profits once it… listen, if you have a 10% or a 20% gold allocation, and it goes up 30% and you sell 4% or 5%, you still have an extremely large position in gold, right? So, I'm not against doing so. Now, I wouldn't sell all my gold, of course, I would not sell all my gold.

And the other thing I would say is that, with the dollar going higher, a lot of people have always said to me, you know, the dollar going higher, you must think the gold is going lower. And no, that is not the case, right? My point for five or six years has been that there is nothing more long term bullish for gold than a strong dollar, because as the dollar goes higher versus its Fiat peers, it causes chaos, it causes breakdowns, it causes crises, and gold is a beneficiary of all of those things. But for some reason, people just hate this whole Dollar Milkshake where the dollar is beating its Fiat peers, and that they just cannot accept that. I think that the dollar can stay strong and that gold can go up along with it. So I would just say, you should all absolutely own gold. But you don't have to hate the dollar in order to own gold. The dollar has so many advantages over its Fiat peers that you're really doing yourself a disservice by ignoring it. And I'll wrap it up on this, Eric, the reason I focus on the dollar is because the dollar is the primary variable, in my opinion, in almost everything in macro, and if you get the dollar wrong, it's going to be very hard to get your portfolio right. And the other thing is that every financial crisis of the last 25 years has coincided with the dollar going higher. The reason for that is, also every crisis for the last 25 or 30 years, almost everyone had some form of a currency carry trade as a determinant of that crisis. And so, in that respect, there's nothing more important than Fiat versus Fiat, because we live in an age where Fiat is being debased at an increasingly rapid rate. Many people think that Fiat versus Fiat doesn't matter. I am here to say that there is nothing more important than Fiat versus Fiat, because when one Fiat currency moves dramatically versus another Fiat currency, really bad things happen in capital markets.

Erik: Brent, let's move on to page 37 and the S&P.

Brent: I'm going to say something that I've said pretty rarely, or pretty frequently, though I've been here. And before I answer this, I'm going to say part of the reason that I kind of sound the same when I talk is that my strategy has kind of worked out. I haven't had to change my story. My story for several years is that I'm going to be long US equities, but I think they're going to be susceptible to terrible drawdowns along the way. I'm going to own short term fixed income, because I think rates are going higher. So, any fixed income we have is going to be very short dated. And I'm going to own gold, because I think, for a number of reasons, gold is going much higher. And I'm going to have some hedges, some either volatility hedges or equity hedges, to protect against these dramatic drawdowns. And that's kind of where we're at today. You know, equities have had a really good year. They had a hard draw down in late July, August. I think it's very possible, again, this isn't, I don't know for sure, and I'm not predicting a crash, but with all that's coming up over the next two or three months, with all the uncertainty surrounding the Middle East, surrounding the US elections, surrounding Taiwan, and what's going on in China, I think the markets are very susceptible to a very hard and quick drawdown. So, while I think equities are going much higher over the next couple years, I am prepared for some downside volatility over the next two to three months.

Erik: Brent, page 38 seems wicked important to me. I'm going to resist the temptation to give my interpretation of this chart, because it's your chart. Hit it.

Brent: Again, this kind of goes back to the overall theory. Back in 2018, ‘19, I thought that this 40-year bond bull market was going to end. I thought interest rates were going to rise. I thought as interest rates rose, that would put pressure on the dollar to move higher. I thought that would help draw capital into the dollar. And, that's what we've had. We've had, a pretty significant breakout in 10-year US Treasury yields. Now, they've kind of gone sideways for a year, unless we have some kind of a major risk off Black Swan type event with the budget, the way it is with the amount of money that the government's going to spend, I expect yields to kind of stay at these levels or go higher.

Erik: Now, when you look at this from a technical analysis standpoint, a lot of traders would say, okay, you broke out of a channel. The likely next move, or the textbook move, would be for the price to drift back down to touch what used to be the resistance line turns into support, and then you see the rally take off from there. If you're used to looking at daily charts, you see something like this and say, oh yeah, in the next few weeks to a couple months, it'll probably come back to down to that white line. Well, hang on a second, this chart is on a different scale. If you just imagine drifting back down to that white trend line, touching it, and then moving higher, that would be it's going down for the next five years. So, is that the right way to think about this? Are we maybe looking at an initial breakout that's going to come back down and retest what was previously resistance as support?

Brent: Well, listen, that could certainly happen. And I know a lot of people who not only believe that, but have that trade on. I do not have that trade on. Here's the reason I don't have that trade on. Actually, that is not my base case. But if that does happen, if yields come back down that fast and that hard, it probably means a lot of dislocation in the market. If there's that much dislocation in the market, then I would imagine that risk assets are falling and because we have a lot of T bills and a lot of short term fixed income, and we have dry powder, and we have hedges on our equities, should that dramatic dislocation in risk assets fall, I would rather play it by buying things that are distressed, rather than playing for this to happen directly.

Erik: And let's briefly touch on commodities, page 39.

Brent: Well, I just threw this in here because I love long term charts, and I just find this chart fascinating. Erik, this is like a 30 or 40 year chart, and it shows those commodities have gone up and down and up and down, but they're basically the same place they were when I was in college. Now, certainly, things like gold have broken out, but, but overall, the commodity index is right where it was when I kind of was just starting to learn what all this stuff was. And so, I think there's been a lot of people who have been in the, you know, Fiats getting debased just by hard assets, and everything's going to work out great. And I think they've been in that trade for two or three years, and it just hasn't worked out yet. Now, I'm not saying it's not going to work out. And in fact, I think that, in the years ahead, commodities will probably do good, but it's not guaranteed, and I don't think it's as simple as central bankers are going to print money, so buy hard assets. And I think this chart does a very good job of showing that.

Erik: And let's briefly touch on oil.

Brent: I put this in here because when I was here in May, we talked about oil, and I said I thought that it was probably going lower into the fall. That's kind of what's happened. And I think that probably continues lower, unless we have some kind of a military flare up in the Middle East, which is obviously very possible. I think that oil probably languishes around 70 and perhaps even goes into the 60s, where it was a month or so ago.

Erik: Brent, I have to agree. I think there's plenty of room for it to go down, unless it goes way up because of stuff that we can't predict. I'm flat as a result.

Brent, as usual, I can't thank you enough for a terrific interview. Before I let you go, I want to suggest to our listeners who are not familiar with the Dollar Milkshake trade, just go to our home page, macrovoices.com, in the search box, type in Dollar Milkshake, you'll find Brent's previous interviews where he explains the whole theory in more detail. Brent, before we wrap up here, please tell our listeners where they can follow your work and what you do at Santiago Capital.

Brent: If anybody's interested in following what we do in more detail, if you go to page 41, I've kind of laid out the three different ways that people can either get in touch with me or kind of follow my work, Santiago Capital. I'm a registered investment advisor. I'm regulated by both the SEC and the NFA. It's basically a wealth management firm. I've got a number of high-net-worth families and individuals who I do overall wealth management for them. We also do a weekly show, we call it Milkshakes, Markets and Madness. You can find that on YouTube. You can click the link on this slide, which will take you there. And then finally, a friend of mine and I started, probably about three or four months ago, a research service called Macro Alchemist. And if you click on that link and go there, you can sign up and you can get access to the reports we put out, three or four reports a month. Some of them are 10 or 15 pages. Some of them are deeper dive and are 40 or 50 pages. But it's a little bit more deeper dive into the analysis that we do, when we're kind of thinking about markets and thinking about trades.

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