Vincent Deluard: The Five-Body Problem

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Erik: Joining me now is Vincent Deluard, who heads up Macro Strategy for [Stone X](). Vincent, I can't believe it's been four years since we had you on the show, it's great to have you back. listeners. Vincent has shared with us some really excellent research. It's the stuff you normally have to pay for. It's linked in your Research Roundup email. We're going to talk about three separate Stone X Intelligence Reports. Vincent, let's just start with the big picture of, you made the call, as did several of our other favorite guests, our mutual friend Louis Gave called the secular inflation several years ago, as you did. Everybody else was saying it's transitory, it's just going to be short term pandemic effects. You were the guy to say, no, the pandemic is the catalyst that's going to bring about a secular inflation. Seems like you and Louis and number of other smart people are being proven right. Let's just get the big picture update. What's happening with inflation, or do you still have that view that this is the beginning of a secular inflation? Because, look, we're just having what seems like the end of a wave. A lot of people are saying it's ending.

Vincent: Yes, thank you. It's a pleasure to be back here, and thank you for the introduction. The secular call would not be a secular call if we were to change it, just because one measure of inflation, and I'll stress that the CPI is a measure of inflation with certain biases, certain choices, but it's not inflation itself, has come down to levels that are still far above what we had before. So yes, inflation is a process, not an event, and it typically occurs in waves. So seeing some cyclicality in inflation, like that little signing pattern that we are seeing is actually what you would expect. And that's what you see in the past. If you think about the 70s, you had these three ascending waves, right? 1971, 1973, 1979. If you think about the 50s, you had one on the US mobilized. Another one during the war, and then another one after the Korean War. I've actually went all the way back, using Bank of England data, back to the Middle Ages, to test this hypothesis that inflation indeed is a wave like pattern. So the notion that would have a kind of one and done is very, I wouldn't say unprecedented, because I haven't data on all countries. I could say it would be certainly the minority to see a single wave, and then we just go back to the old world. One thing I wanted to rebound upon is also, when you mentioned COVID was a trigger, I think that was, that's factually correct, but I think it's the response from COVID that was the trigger. COVID itself was neither inflationary nor deflationary. I mean, events are somewhat neutral. You could have made a case that COVID was going to be deflationary, if we had not responded to it, if we just had basically, dramatically cut out consumption of commodities. Oil prices were negative. It could have been deflationary. And actually, it was in China when we had completely different response. COVID was deflationary shock. What was inflationary after COVID was the response, the fact that we blew up the deficit. I mean, the deficit increased more than it did during World War II, after COVID. And contrary to World War II, we did not normalize after that. This is a balanced inflationary, this is the policy function, the reaction from the Fed, from the fiscal authorities. This is what creates inflation, and this is what makes me think that is going to come back, not because of some external shock. I obviously cannot predict shock. You know, in 1979 it was the Iranian revolution that triggered it. 1973 was the OPEC gold embargo. There is going to be another shock, and the response to that shock will be inflationary.

Erik: Let's talk about what this means in the context of President Elect Donald Trump's coming into office. Clearly, he has some intentions to shake some things up, change some policies. Are those going to exacerbate this inflation that you're anticipating, or are they going to maybe make it a little bit better?

Vincent: I would think so. At the core, Trump is a populist candidate, and I don't mean that in a delegatory way. I believe democracy should be run for the benefit of the people. So, populism is not a dirty word, but populism is essentially inflationary. We also have the experience of the four years of the first Trump mandate where, I mean, in here, we see an economy that was really on the verge of deflation. I mean, remember back in 2015, 2016, we had the Chinese devaluation, we had a massive slowdown in GDP growth. We were below the targets. We had very weak commodity prices. And then when Trump came in, kind of kicked in all the animal spirits, inflation came up. So I think this time, it's going to be even stronger, because he has an even greater popular mandate in all three branches of government. He also has a popular vote. He also has, I think, he has gamed better together. I mean, one of the things that was unsettling about Trump, one was the massive turnover in the administration, the lack of clarity between various part of his administration who seem to be fighting each other. I suspect some of that is going to be a lot more consistent this time, with probably a much bigger role from that populist faction that really put him through the line. I mean, if you look at the poor, I think probably RFK did a lot for Trump. I mean, Tulsi, JD Vance, that kind of populist, isolationist America first line is probably much stronger. There will be lot less resistance, also among traditional Republicans, because a lot of them have been voted out. Basically, if you did not kiss the ring, you were kicked out, so greater leeway for him to implement his agenda.

And then finally, also very different economy conditions. As I mentioned, when Trump was first elected, the economy was on the verge of deflation. We're still in the mid 2010’s before the deflationary decade, we had quite a bit of austerity with Obama, we had zero rate. So, the Trump policy shock was actually positive. This is what the economy needed. The economy needed fiscal stimulus. The economy could handle tariffs, because what happened is the dollar went up, so the effectively, we didn't repay for the tariffs. So, the policy prescription from Trump-one, was economically correct. In 2024, we have a very different situation. We have an economy that's growing at 3% for eight quarters. We have inflation that is, I think, I would call that almost an optical illusion, the 4% to 2.4%. I mean, we can talk about it later, but I mean, if you go down, I don't think inflation has formed to 2.4%. I think I would look at things like core services x housing, that shows that it's around 4%, 4.5%. So we’re already twice the target. We have no output gap. And we also have immigration. We have a x immigration, what I think is a very tight labor market. So again, very different circumstances, which will likely mean that you start from a basis, a lot more inflationary, and you add fuel to the fire.

Erik: Vincent, back in the day, this was a pretty easy investment call. You think there's secular inflation, you buy gold for your portfolio. It seems like maybe the rules are changing, because in minutes after the Trump win was clear, the gold market started crashing. We're down $250 already on gold, and this is happening, really when most people had predicted that a Trump win would be extremely bullish for gold. I think what's going on here is a rotation out of gold into Bitcoin because of President Trump's seemingly strong desire to accommodate the crypto community. Is that what this is? Is it something else? Why is gold going the opposite direction from what so many people predicted?

Vincent: I think it's spot on, the rotation into crypto. I mean, you can see it, basically one goes straight up, the other one goes straight down. I want to maybe contextualize the falling gold prices. I mean, we're still at $2600, come on, in a way, it's healthy like that. You don't want a market that goes straight up because, you know, they these blow off top, you can't go on forever, so some consolidation. And even if we go down to $2400, that's really not the end of the year. I mean, gold had a fantastic year, so it's not a bad thing for us to digest these gains. The other idea is very much unique with what you said about the election, is gold's value as a hedge against political uncertainty. Going into the election, if you read the polls, it was basically tied, right? I mean, of course, it was manipulated, that the pollsters were over hoarding, and nobody wanted to have the neck stick out, so it was fake. But nonetheless, there was a narrative that we're going to have this late election, and that maybe by the end of Tuesday, we wouldn't know who would win, both candidates would claim victory, would have some sort of January 6 like event. And I think some of the trade was okay, by gold, in the event that we see true political instability in the US, you saw that also in the SKU which were a lot more expensive than calls, the VIX was very elevated. So, the unwinding on that trade really kind of bringing the VIX down to lower level, taking down away with it, and then Bitcoin is kind of acting the other way, because we have all these intuitions about Trump being the first crypto president, and so forth. But again, this is a trade. It's going to wind down. Eventually, it's going to run out of sellers. And then we'll go back to what I think are the fundamentals of the gold trade, which is big accumulation by central banks, secular inflation and the Fed that is consistently and on purpose by design, behind the curve inflation, i.e., maintaining negative real rates, which is, of course, very bullish for gold.

Erik: I couldn't agree with you more on all of those points, but now I get to do the fun part and put you on the spot. As we're recording Tuesday afternoon, we're just barely holding on to the round number at 2600 after a few days of really aggressive selling, is it ending, or is it just getting started? Is this the time to buy the dip? Or should we be hedging our gold positions and expecting more turbulence before it's eventually time to buy at much lower?

Vincent: I'm not the best short-term trader because it's a great way to look like a fool, but if I were to make a guess, I think we're closer the bottom than we are the top. And if your horizon is anywhere longer than five months, I think this is buy-the-dip opportunity. One way this could resolve is, I mean, we still have a lot of potentially gold bullish development ahead of us. I keep looking at the dollar index front and see, see this dollar going, chewing straight up at some point. That's going to be a problem for Donald Trump. If we really want to do re-industrialization, bring back to Ohio, Appalachia, we can't do that with $110 index. So at some point we're going to see Trump really balking at higher rates, trying to get other currencies to be revalued. And once you start to see the dollar index, maybe not fall but stabilized, you know that gold is going to shoot straight up again.

Erik: Vincent, maybe you can help educate me, because I think President Trump must understand some aspects or nuances of macroeconomics that I haven't learned yet. One of his statements is that we absolutely, positively, must defend the US dollar's role as global reserve currency, because the US gains a lot of strategic benefit from that effective monopoly over its dominance of the global monetary system. We can't let go of that. He's been very emphatic on that point. Then a few minutes later, he talks about a strategic Bitcoin reserve. Now, Bitcoin is a currency system that was designed for the express purpose of undermining the monopoly that governments have over the money system, decentralizing money so that no government is in charge of it, and so that the concept of a global reserve currency is effectively replaced by a new paradigm. Vincent, does President Trump understand something I'm not giving him credit for? Or is he making inherently contradictory statements, evidencing that he's the one who doesn't get it.

Vincent: I think he's just being a politician here. I mean, obviously, he got the endorsement of the Crypto/Bitcoin community. He wants to throw something back at them. I'd be very surprised if we saw this Bitcoin National Fund. By the way, we kind of already have one, right? Because every time the FBI sees these crypto assets related to criminal activity, it actually, my understanding is, ends up on the account of the US government. So, we already have a Bitcoin fund. So, I wouldn't put too much credence into the idea that we're going to create a Bitcoin sovereign fund, or also the idea that we're going to have a sovereign wealth fund. These are all things that, you know, Trump likes to fool around. But again, we had four years of Trump, that did not happen before. It's very, very hard to see a strong policy case for it.

Erik: So, fade the strategic Bitcoin reserve, but considering what we've seen in the market, clearly there's a rotation going on. Should those of us who have been skeptical of Bitcoin, specifically because, I mean, what I've always said is, look, the idea of democratizing the money system, so that people own it instead of the government zoning it, I love the idea. I just thought it was impossible that government would ever allow the loss of its monopoly and that they would fight it. It seems like President Trump doesn't want to fight the faction of the Bitcoin community that would like to promote Bitcoin as more of a trade settlement, and maybe even reserve asset currency for other central banks. Does that maybe change the thesis, and say that people should be allocating more into crypto, or beginning to allocate into crypto if they had previously seen gold as the right trade there?

Vincent: Again, on that I would follow the action of central banks, rather than the words, I mean, words are cheap. If you see what central banks are doing in Russia, in China, in Türkiye, in Kazakhstan, in India, you see this very clear move towards gold. Or maybe, I mean, I put the BRICS currency idea in the same category of ideas that keep coming back and never actually happened. But I don't really see a huge impulse from central banks to load up on Bitcoin, because that's the next asset, and that's the easiest way to transact rapidly. It's not so this might be one of the cases of "Buy the Rumor, Sell the News." So, the run up to the Trump election was very good for Bitcoin. I suspect that the second part of it, now that we had all the possible good news, you know, we have the Bitcoin ETF, okay, what's next? You know, now you even have boomers that are buying Bitcoin on, you know, regular exchange on 401K. I mean, where is the next wave of money going to come from?

Erik: Vincent, before we leave the inflation topic, I just want to let our listeners know that you penned an excellent piece back in August titled, *Inflation is a Process, Not an Event*. Listeners, you'll find that linked in your Research Roundup email. Vincent, let's move on to another piece that you wrote called, *Shadow Work, Shadow Lending and Shadow Savings*. What's that one about?

Vincent: It's about something that's been puzzling, I think, economies for a long time. It's a diffused sense that the tools that we have do not seem to capture reality as well as they used to, and you can see that in pretty much any official statistics that you see, whether it's the discrepancy between income and GDP, whether it's revisions to the Non Farm Payroll numbers, whether it's revision to the GDP estimate, or whether it's the savings rate. There seems to be something about this economy that we can't quite measure, and that something seems to be on the positive side. Growth has been, generally speaking, much more resilient than people thought. Consumption keeps surprising to the upside. So, this seems to be this kind of shadow economy that we're not quite getting. And I was making a hypothesis, which I've made for a long time, that I'm going to start with the Shadow Work, but then I'll go into a Shadow Savings and the Shadow Lending.

So, Shadow Work, I think, is the most important part, which is that basically the US is going backwards in terms of development. The idea when you study development economics is, you have this kind of shadow economy where people just use cash and sell stuff on the street, and then as development happens, more people work for big companies, and then everything gets taxed for the banking system and all that. My impression is that the US is going the way of Brazil or Colombia or Peru, where the part that you see actually shrinks, and the part that's on the shadow is exploding, and part of it is technology, right? If you think about the past 20 years, all the major innovations that we had was what I call reinventing the coolie, basically finding ways to utilize assets or workers in a flexible way that is not for their primary job. So, you have an in-law unit, well, put it on Airbnb, get some money back with that. Or your car is sitting around, just rent it or lease it to someone else, and that someone's going to drive Uber or DoorDash. Or, if I asked my nine-year old kid right now what he wants to do when he grows up, he can tell me he wants to be a YouTube creator. If you were a pretty girl, you would probably do another format that I'm not sure I'm allowed to discuss here, but I will just mention that Only Fans creators, last year, made more money than the entire NBA altogether. So we had this explosion of gig avenues for people to earn revenue outside their main job. That was going on before COVID, and then COVID accelerated that because suddenly most people were working from home which made this even easier and easier. So no one really knows how big that is. The one way I can track it is by looking at self-employment tax collection. So these are, this is tax that's collected on income that's coming from self-employment, not the part that's withheld from your W2, your paycheck. And the growth here is just stunning. We've come from almost nothing to a trillion dollar in tax receipts. So, let's say you have a trillion dollar in tax receipts, right? This is what you tax. So the base, let's assume that the tax rate is 20% which, by the way, is too high. I mean, probably 15% would be better. But let's go with 20%. 20%, that means that the underlying stream of income that you're taxing is $6 trillion. I mean, $6 trillion is 20% of US GDP, $6 trillion is about twice the size of Brazil. So what I like to say is that there is a Brazil, well, two Brazils that are hiding in the US economy and growing by 10% or more a year. And that's been going on for six, seven years. So to me, this is really the engine that explains a lot of resilience of consumption. Because, yeah, maybe people are losing their jobs. But, you know, 15 years ago, one of the great financial crises, if you lost your job at a car factory in Detroit, that was it. You were done for, you started to default on the credit card, default on the home, didn't have that many options, because no one else around you was hiring. Today, you lose your job, you can sign up as an Uber driver. I mean, according to Uber CFO, the Uber drivers may make an average of $35 an hour. Now that doesn't include the cost of gas, the cost of insurance, the cost of the car, but these are expenses that people have anyway, right? So, the ability to get that new job means that this halo of employment, the distinction, when we do the household survey, people ask are you working or are you not? And that's how we divide the inner primary rate, which is a horrible way to do it, by the way, but never mind, it's not that clear anymore. People are always kind of working and they're always kind of not working. So that creates this dynamism, and that creates also, these big discrepancies between various measure of the employment rate. So that's the Shadow Work part.

The Shadow Lending comes from the fact that, for 15 years now, we've been hammering banks with regulation and restrictions on the lending they can do. And of course, nature abhors a vacuum. So someone stepped into that, and that was private debt and private credit. Now, if you look at the whole private debt market, it's now bigger than the junk bond market. So, we've added about $2 trillion of credit to the economy that doesn't show in the books of the bank. So that's why you can see, like a senior loan officers will tell you, we’re tightening lending standards. And then you see, what everyone around us sees, which is this massive boom, like there's no financing problem in the US. Financial conditions are easy, but it's not coming from the banks. And then, the last part is what I call Shadow Savings. So again, here we have this completely erroneous papers that the Fed published couple years back saying excess savings have been depleted. They're not depleted. They're still in the system. But more important than the excess savings is the wealth effect. If you look at household networks, so you take a household sector assets minus liabilities. It increased by $44 trillion since COVID, actually probably now we have $50 trillion with a Trump shock, so let's say $50 trillion. Now, national savings rate, the national savings in a year, we save a trillion. So that $50 trillion increase in net worth is 50 years of savings that we've added to people's balance sheet. So of course, there's going to have an effect. And you add all these three and that creates this economy that just won't slow.

Erik: Vincent, off the air, you used the expression, recessions have been canceled, or a thesis that you have that recessions have been canceled. How does this all fit into that, and what does that mean exactly that recessions have been canceled?

Vincent: Well, let me start maybe with the framework. So, I like to use the quadrant framework, which a lot of other shops use, Gavekal, Hedgeye, on your x axis is inflation, on your Y axis is growth. And you basically have four economic quadrants you can be in. Strong growth-strong inflation is inflationary boom, strong growth-weak inflation is a disinflationary boom. Strong inflation-no growth is taxation and then no deflation plus recession is a deflationary bust. My impression is that with policy, we can always cancel one of these quadrants. We cannot pick which one we're going to be because we don't really have, we don't really control growth, but we can avoid an outcome, and based on the experience of the past, policy makers will be biased towards avoiding a certain outcome. For example, after the Great Depression, there was this kind of Keynesian moment in the US, like, okay, we cannot allow that to happen. We cannot have a deflationary bust. We've seen what happened with the Great Depression and then World War II. So after that, after World War II, we had about the 30, 40 year period during which the mix was somewhat inflationary. We were basically avoiding that deflationary bust quadrant. And then after the great inflation of the 70s, we had the exact opposite memories. We saw what happened with Jimmy Carter, the malaise in America, and then okay, no, we cannot have stagflation, and all of policy was now designed to avoid that quadrant. My impression is that after the 2010s, which was basically an era of deflationary bust, globally, of excessive fiscal restraint, ineffective monetary policy, policy making has changed, and now this is the one that we want to avoid. We want to avoid the deflationary bust, so the economy just keeps kind of going back and forth between the three other quadrants, which are inflationary boom, which I think is probably what we're getting into, disinflationary boom, which is where we're coming from. Inflation was coming down and we had everything booming. Or, finally, what I hope we can avoid, which is a stagflation. But the last one, which is the deflationary bust, we'll never get there because of, part of what I discussed, the amount of excess savings, the wealth effect, the rise of the economy, and then the fact that we're running deficits of 7% of GDP at a time of expansion, and that we have a Fed that starts cutting rate by 50 basis points when the unemployment rates are all-time low and the stock market is all-time high. So we have effectively made that impossible. And the investment implication that I see from this analysis is that you don't need long term treasuries in your portfolio. So, one thing I forgot to mention is that each of the quadrants is associated with one asset that does well. If you have a disinflationary boom, big tech growth stocks do very well. If you have an inflationary boom, typically it's going to be emerging markets. If you have stagflation, it's going to be gold and commodities. If you have a deflationary bust, it's going to be treasuries. Well, if we don't have deflationary bust, we don't need long term treasuries. And indeed, for the past four years, I mean, treasuries have really been the ones that you didn't want to touch with a 10-foot pole.

Erik: Now, Keynesian economists would say what you've just described is a victory lap for counter cyclical stimulus policy. Government can impose policies that successfully avoid recessions. Yay for government and yay for government intervention in the economy. And then, of course, the Austrian economists would say the opposite. They would say it's a recipe for disaster, because there's no free lunch. And although you can do those things in the short to intermediate term, they always come back to bite you in the end, and you end up with a massive bust as a result of all of that policy eventually backfiring. I think about something like the way the Australian government has been managing their housing boom. And a lot of people said, 10, 15 years ago, look at what happened in the US. It's about to happen in Australia. Well, does the Australian government get an A plus plus plus for keeping their housing boom going for 15 years, longer than anyone thought possible? Or have they created peril for their people, because a much bigger housing bust is coming and can't be avoided the way von Mises famously predicted that there was no avoiding the ultimate bust. Those are two opposite views, obviously from von Mises and Keynes. What's the Vincent Deluard view?

Vincent: Probably a bit of both. But Keynes comes before von Mises and in the US, we can do Keynes for a lot longer than more people can think. I think, what you kind of alluded to it, right? I mean, I love the Austrians, they're great, but you're not going to make money from trading. It's got almost like a moralistic aspect to it, like, oh, this should not be happening, therefore it won't. I mean, this is not the way the world works. Things that should not be happening can keep happening for a long time, whether you like them or not. And yeah, it's possible that at the end this all ends up with a giant bust. But in the famous world of Keynes, in the long term, in the long run, we're all dead. And I think, in the US, we have this ability to run these kinds of policies for much longer than other nations. I mean, Australia, I think part of it was when you talk about real estate for Australia and Canada, you have two things to take to into account. One is the amount of Chinese money that they get, and two, the immigration that they get there. Can we keep these things going? Probably without these two forces you would have seen, indeed, the bust of the Canadian and the Australian housing market. In the US, we show the world reserve currency, as long as the bond market lets us do it. I think we can very, very easily run the deficit of 7% of GDP. By the way, 7% of GDP is not that bad right now. I mean, we have, if you go with my view that true inflation is around 4% and real growth is at 3%, you run a deficit at 7% of GDP, and you roll over your existing debt at 3%, you actually deleverage the economy. So I think the Canadian experiment can run for much longer than people can give you credit for. And trying to capitalize on this kind of judgment day, that finally the Austrians will be right and the prices will fall like crazy, and then the sinners will atone and will get flogged, is, again, it's a religious way of thinking about markets, not an economic one.

Erik: Vincent, the third Stone X Intelligence Report that you are sharing with our listeners, and again, it's in the Research Roundup email you'll find the links folks, is called *The Five-Body Problem*. Now, this one reads as if it was something you wrote just after the election to kind of put the election in context. But this was actually written before the election. I think you just happened to get the calls right. Tell us what this is about.

Vincent: So it starts from the famous three-body problem, which is a physics problem, which really tells you how little we understand about the world that if you have three objects that are orbiting, afterwards become so chaotic that even with all the computing power in the world, you cannot predict where the three objects are going to be, even though the initial position, the velocities are known. So, this is kind of maybe a little humbling, when we try to predict capital markets, which are the product of the action of 9 billion people animated by religion and maybe personal freedom and ideologies and so forth. So, our ability to predict is quite limited. But I was trying to narrow it down, at least on the macro side, to five big questions, which I think are the ones that mattered before the election, and to some extent, matter today. So, the first question is, will the US maintain this high level of growth, that 3% plateau that I've been talking about? Two, will the Fed stay behind the ball and maintain a dovish bias? Three, will Chinese stimulus be successful and turn things around? Four, will there be a red sweep at the November election? And five, will there be an oil shock? And I think if you can answer these five questions correctly, you have the macro Rubik's Cube more or less figured out. For what it's worth, I can tell you what my guesses were before the election. So, on the high level of growth, this has been my view for several years now, no recession, and yes, this is kind of a new plateau. The only thing that I will add now is that I'm starting to become census, and it's starting to bother me quite a bit. I loved it five months ago, when everybody was looking at the Sahm Rule and all these crazy recession theories, or before that was about commercial real estate or, I mean, we had so many imaginary resessions before it was very easy for me to be in the other camp. Now, with the election of Trump, I see the consensus shifting so rapidly towards my camp that I think that that bar is moving like six months ago. All that you need is not to have a recession, and you were ahead of the game. Now, I think we need actually accelerating growth for that to be true. So I would still give yes, I believe strong nominal growth, but I think that's getting more and more priced into the market.

Second question was, would the Fed maintain its dovish bias? I mean, I don't know what you thought of last week's press conference, but I thought Powell was quite dovish. He kept repeating that he thinks the policy rate is restrictive and he wants to bring it down to neutral. I believe the policy rate is accommodative. So, every time he brings it down to neutral, he actually makes it more and more accommodative. Would Chinese stimulus turn things around on that? I will turn to our mutual friend, Louis-Vincent Gave, I think he's done the best work on Chinese economy, and I tend to agree with him that this might be the real deal. I believe there is a chance, now that Trump is elected, that actually increases the impetus for the Chinese to get their stimulus going, because they know that the trade route is probably not going to work. They're going to be facing a very aggressive, more nationalistic US administration, so they really need to get the economy growing again. The red sweep, well, we already had it, we had the Republicans winning, I think now it's confirmed that the Congress as well, so there you have the answer. And then will there be an oil shock? So far, no, oil has actually sold off on the news of the election. We're kind of at the bottom of that 65 to 75 trading range. So if I put everything together, that's still a pretty favorable environment for stocks. And I don't like to say that because I realize that stocks are insanely expensive, they're rallying 3% every day. I calculated the Sharpe ratio of the S&P500 for the past year, is around 3%. So it doesn't feel good to be long stock, but if you just look at the macro stuff, you have to say that things are unfolding in a way that is bullish for stocks.

Erik: Vincent, I agree with you that our mutual friend Louis Gave does, I can't pronounce it in French as well as you can, but Louis does terrific work on China. Let's get your perspective, though, on China, and maybe broaden that to other international assets. Where is the US dollar headed? I'm sure you're familiar with kind of the Luke Gromen versus Brent Johnson debate about how this whole dollar situation plays out. Does it strengthen or does it weaken? How do you see that going? How do you see China playing into it? Is the China recovery finally going to be realized?

Vincent: Generally, I think I'm more in the Louis-Vincent, Luke Gromen camp over the long term, but I could certainly see the Brent Johnson scenario playing out in the short term, which is kind of what we've had since the election with the dollar index going straight up. On China, there seems to be a big disappointment moment right now, when the stimulus was announced in early September, we saw the market rally by 50%, now we've retraced a bit more than half of these gains, and the consensus seems to be that it's just a fate that they tried many times before, and the kind of policy they announced are not strong enough for the problem that they face. I think that perspective is biased by a lack of understanding of how China works. I think there is this view that whatever Xi says happens right away, that China is this kind of dictatorship, which, to some extent it is, but it's a formal dictatorship. It's one that, you still have, even in China, there is a political cycle. If you want to pass policy, you need to get it through the Congress, and that meeting happens in late December, and yes, maybe you flash out the policy goals at the political meeting, but it takes a couple months to get it announced. So, the fact that they have not announced anything substantial since September doesn't mean that it's not going to happen. It just means that they're following their own calendar. There's also probably a strategic reason for them not to announce something too prematurely, it's the poker game that they play with the US. They want to see what Trump's going to do on the tariffs, and they want to target the response based on what Trump does. So again, that argues probably more for something that's postponed, rather than non-existent.

And then, another element that I think people miss is the extent to which China is decentralized. It's not just Beijing deciding, I mean, most of government spending happens at local government level, which is why, if you look at the latest initiative, which was basically a debt swap for local governments, yeah, the amount was a bit disappointing, but the direction is right. If we want to stimulate the economy, you need to deleverage local government and give them the means to stimulate the economy. So, there's nothing in what I see that suggests that the Chinese stimulus is not going to happen. This could be a, if you follow the 2008 US analog, we had the stimulus, we start with the ban on short sale. All the big policy measures were undertaken by October, November, December, and yet the market did not bottom until, I think March 9 or March 3. So it took about five months between the moment when the government said, okay, we're throwing the kitchen sink at the problem, and seeing the actual bottom in the stock market. We may see the same thing in China, where you actually see the kind of bottom out now and you see the final bottom. Maybe I would guess it would be around the inauguration of Donald Trump, when you see the tariffs. And then this is when, you know, everybody completely gives up on China. the place is uninvestable, the tariffs, blah, blah, blah. This could be the time when you actually see this kind of secular bottom for Chinese equities. So I would advise for some patience there. And then the follow on to that is, if we see a successful Chinese stimulus, that's obviously very good news for South Korea, Indonesia, Malaysia, a lot of Latin America, a lot of the Middle East as well. So, you could see this successful Chinese stimulus kind of drag along international assets, which have been one of the long suffering trades, right? For 15 years now you've seen the US outperform, non-US stocks by 10% a year. I suspect we're getting close to the end of that period, partly because of that shiny stimulus, partly because of the end of the Japanese carry trade, and partly because of the Fed, who is kind of done with rate hikes and is telling us that they actually want to be behind the ball, behind the curve of inflation.

Erik: Something I've started to look at in the much longer time frame, with regard to China, is nuclear energy adoption in the West. We finally figured out that nuclear energy always has been the safest, cleanest, greenest way to make energy, but boy, in democracy, you have to pay for the wonderful value of democracy by taking the time it takes to reach agreement and consensus before you invest in something as controversial as nuclear energy. China has the benefit of, hey, we don't need to get the approval of anybody. We just do what we want. And China is at least 10 or 15 years ahead of the West on all things nuclear. On the conventional side, China has more planned and proposed reactors than the entire US fleet. On the advanced nuclear side, China has built the only thorium fueled Molten Salt Reactor since the one that was built at the Oak Ridge National Laboratory in the 1960s. On all of the other advanced nuclear technologies, whether it's high temperature gas cooled reactors for energy transition and hydrogen production and so forth, they are doing everything now that we're just starting to have a democratic debate about. What could this mean long-term, in terms of Chinese economic, and eventually, military dominance?

Vincent: I think you're spot on. I mean, the work you've done on these issues is remarkable. And I think, not only true on a market sense, but essential on the policy level, because these are the questions that will matter in the next 20, 30 years, what decision that we made today to prepare for that. And indeed, nuclear is one of them. It could be that nuclear is at the same moment where rockets were with Elon, before we had Elon and SpaceX sending rockets, you know, cost a lot of money, had to be run by the government, and there was not much in terms of improvement. And that's kind of the Western approach to nuclear energy, right? We're going to commission one giant plant, and of course, it's going to cost a lot of money, because everything you build once, you have to start from scratch every time. But what the Chinese seem to be doing is going to be what SpaceX is doing to rockets, like, listen, instead of building individual rockets and spend so much money every time, maybe we can do it a bit smaller, and maybe we can actually reuse that, and as a result, shrink the producing cost by a factor of 80%, 90% and I think that's what's happening in China. So at the base, you have the physical advantage of nuclear energy, which is higher energy density than any other form. But then, if you add to it the economies of scale, of being able to replicate the same design and do it on smaller scale, yeah, you do have, what I think is the solution to the really the biggest economic problem, which is, how do you generate cheap, reliable, consistent power with which to power your economy?

Erik: Well, Vincent, I can't thank you enough for a terrific interview. But before I let you go, please tell our listeners a little bit more about what you do at Stone X. I'm sure they're going to enjoy these three courtesy reports, which, again, are linked in the Research Roundup email. For people who want to get those more frequently, do you have to be an institutional investor? What do you do? How do you sign up?

Vincent: So, if you go to my Twitter handle at @VincentDeluard, there's a pinned tweet. Under that pinned tweet, there is a link to register for a sign up on my research. It's free. You get a two-month trial. You can always DM me, and we can maybe consider an extension. I try to answer as many conversations as I can on Twitter, because I've learned a lot from Twitter. I've met very smart people there. So that's the public facing side. And then if you're institution, the easiest thing you can do is be a client of Stone X. I'm sure a lot of you listeners already are. We're very big on futures, securities, commodities as well. So if you already have a Stone X account, just ask your app, hey, I would like to get Vincent's stuff or send me an email directly, vincent.deluard@stonex.com and I'll make sure to share my latest reports, presentation, webinars. And if none of these things work for you, podcasts. I think this is really been a fantastic way to have conversation with very smart people. And I keep doing it. Every time I do it, I keep hearing things, and I hope to do it again soon.

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