MACRO Voices
with hosts Erik Townsend and Patrick Ceresna

Luke Gromen: 2025 Outlook

January 8th, 2025

Erik: Luke Joining me now is Forest For The Trees founder, Luke Gromen. Luke, we've got a new year, you're the first voice on MacroVoices for 2025. We chose you intentionally because you have such an excellent, high level macro perspective on so many different markets. So, holy cow, we've got a new year, rapidly changing geopolitics, an incoming presidential administration that couldn't be much different from the outgoing one. Where should we start? How should investors think about the big picture of what 2025 looks like? How's it going to be different from 2024?

Luke: Thanks for me on, Erik. It's great to be here. Happy New Year to you. I think this year, we're exiting '24 and entering '25 with the US dollar, as measured by DXY, both that and the 10-Y Treasury Yield, basically on knife's edge of a, won't say a crisis, but I'll say a bumpy period. The dollar has borderline too strong, it's causing Treasury Yields to go up with the dollar. And so, it leads to me to an outlook, as I listen to what the incoming administration and its representatives are saying, they're talking about a lot of things that all else equal would further strengthen the dollar, tariffs, DOGE, the Fed may be trying to be a bit more hawkish, geopolitical tensions, all these things, all else equal are good for the dollar. And anything it's good for the dollar is going to be bad for 10-Y Treasuries, long term Treasury market, and anything that, you know, I think we're at about 4.7% on 10-Y Treasury Yield today, as we record this, I think 4.8%, 5% then there or beyond. I think things are going to start to get really sloppy in risk markets and in the economy, etc., and then we'll see where we go from there. And so it leads to this, I think, sort of two discrete periods of time, as I look out to 2025. For me, it's the next two to three months where I have very little visibility and very little conviction in what's about to happen, because I have very little visibility or conviction in, you know, the 16 cooks that are in the kitchen of the Trump administration, seemingly, but it seems like a lot of them are wanting policies that all else equal would send the dollar up, which is going to send everything else down from here for a period of time. And so, I think we're in for a period of bumpiness the next 2, 3 months. And then I think ultimately, 12 months from now, 6 months from now, later this year, whatever. I think we're going to get policies that weaken the dollar in order to kind of smooth things over and to boost nominal GDP growth. Because in the end, the only way out of this debts issue that we have is with higher nominal GDP growth. So those are kind of the two discrete periods of time, next 2 to 3 months, I have no idea, but I think it's going to be bumpy. And then after that, I think bullish for stocks. It's bullish especially industrials. I think it's bullish for gold. I think it's bullish for Bitcoin, as I think the dollar is going to get weak in one way or another.

Erik: Let's go a little deeper on each of those subjects. And believe it or not, I'm going to start with Bitcoin, which will probably surprise a lot of our listeners. No, it's not a New Year's resolution. When the facts change, I change my priorities. And the view that I've had on Bitcoin is, look, I see a lot of people really think it's cool, but this view of the Bitcoin community that it's going to compete with the US dollar for global reserve currency status, I was extremely skeptical that no major government would, or central bank would allow that to happen, because it does pose an existential threat to their monopoly over coining of money. It seems that President elect Trump has a very, very different attitude than any of the standing governments have had for the last several decades. It seems that his administration is going to be very open to allowing for that possibility of maybe even promoting the idea that private label currencies should compete with government issued currency. And I can extend that view to say that Nigel Farage in the UK seems to be gaining a lot of traction with his populist movement. If you had Nigel Farage leading the UK and the pro-crypto Trump that we've been introduced to in the last couple of months running the US, hey, even I have to acknowledge that's a complete game changer for the prospect of cryptocurrency competing meaningfully with the US dollar for reserve currency status, and potentially giving it a real run for its money over the next several years. Now, I still think that proof of work is a ridiculous way to design a currency. I think Ethereum makes a lot more sense. But you know, Bitcoin is the first mover and the market leader at the moment. What do you think about all this? Is it actually plausible that we might see central banks kind of standing down and saying, okay, we guess we have to allow private label currency to compete with us?

Luke: I don't think that will happen. I think what is in the process of happening, and I think Bitcoin may play a role, is the separation of the store of value from medium of exchange and unit of account functions of global reserve currency status. So, currency has got three functions, store of value, medium of exchange, unit of account. And we've been saying for a long time, the way you cut the Gordian knot of Triffin's dilemma is by separating these components so that you have a neutral reserve asset whose value floats in all currencies. And then you have the reserve currency. And the reserve currency serves as the unit of account and as the medium of exchange. And then you replace the currency proxy, US Treasury bond, which has been the primary reserve asset in the store of value in the dollar system, with a neutral reserve asset whose value floats in all currencies. And for a long time, I've thought that's gold, my base case is still that that's gold. And clearly, especially post Russia FX reserve sanctions, we've seen central banks accelerate that meaningfully. I do think there is a view in Washington, amongst the Trump administration and even others, the Treasury Borrowing Advisory Committee put out a report at the end of October looking at how digital stablecoins in the Bitcoin ecosystem could help finance US deficits. And so, I don't think Bitcoin is going to replace the dollar as global reserve currency.

I do think there is a possibility that we start seeing Bitcoin replace, join gold in replacing Treasuries as the primary reserve asset. I think it's entirely possible we start to see sovereigns other than El Salvador start to stockpile, perhaps, we'll see. We've seen rumblings of that from one place or another, from a number of different people, and so it would lead to an interesting situation, in terms of implications for the dollar that has been hinted at multiple times by

Bessent. Scott Bessent, incoming Treasury Secretary nominee that have been kind of ignored, it seems like to me, by a lot of investors, which is Bessent has said at least once, if not twice, that a stronger dollar system and a weaker dollar are not mutually exclusive, and they are what President Trump wants. And so, if you move more toward a system with the dollar still as global reserve currency, but treasury bonds replaced by gold or Bitcoin that floats in all currencies as neutral reserve asset, over time, you are going to strengthen the dollar system, but you are going to weaken the dollar because when you start settling more and more in a neutral reserve asset, you're ultimately going to move global trade and global currencies towards settling around global trade. In other words, the currencies with the biggest trade and current account deficits will be the weakest currencies relative to those with the biggest current account and trade surpluses. And so, why would we want to do that? Well, in that world, the dollar would fall sharply against the yuan, which is kind of what we've been wanting anyway, we keep telling China that they've been managing their currency too cheaply. This would do that moving towards a neutral reserve asset, whether that be gold or Bitcoin, that floats in all currencies, and making that the primary reserve asset, over time, will weaken the dollar against everything else. The dollar, by virtue of the old system, has the biggest current account deficits, because we need to supply the dollars to the system. But that also means that in a neutral reserve asset system, the dollar isn't the cleanest dirty shirt, it's the dirtiest dirty shirt. Now completely confusing most people, is that in the initial moves toward a neutral reserve asset system, the dollar will not fall. It will rise. It will only fall once the Fed or US authorities create enough currency to basically monetize deficits, which they will have to do eventually as they move toward that system. But I do think Bitcoin appears to be having some version. I think some of it, in the short run, may be as simple as stablecoins represent an easy source of several 100 billion dollars of T bill demand that can be financially repressed, to create balance sheet for a US government that desperately needs private sector balance sheet willing to be financially repressed. So, let's see. But I do think there seems to be a movement afoot where Bitcoin has a role to play in, in the short run, helping finance US deficits, and in the long run, serving as a pivot around which to reorder global currencies based on balance of payments and current account.

Erik: Okay, I want to clarify what you mean in your definition of global reserve currency, because you said you don't think Bitcoin would become a global reserve currency, but it might become a global reserve asset. To me, that's almost a contradiction. I guess, some people use the phrase global reserve currency to refer to the trade settlement currency. Others use it, and the way that I use it, is to say the currency in which central bank reserve assets are denominated. And I think with the introduction of stablecoins, this gets a little bit complicated, because I would say that if you're saying the global reserve asset, central bank reserve asset is going to become Bitcoins. Okay, they're not denominated in US dollars, and that would imply that you're moving away from the US Dollar as the reserve currency. But if you're saying that stablecoins are the central bank reserve asset, well, those are denominated in US dollars, even though they're backed by a Bitcoin. So, help me understand exactly what you mean and how you're defining global reserve currency.

Luke: It's a bit of a Rorschach test for depending on which side of the de-dollarization argument you highlight, right? So, some people will say, look, the dollar is still 87% or 90% of global transactions, it's still dominant. True, and the dollar share of FX reserves is down to 58%, it's down 15 points or so over the last 15, 20 years. And if you include market to market gold in that, the dollar share of FX reserves is probably getting close to 50% or below. So, if you look at it from a usage standpoint, the dollar dominant as ever, and that's sort of #America side of the de-dollarization argument. And the other side is, if you look at the store of value, the replacement of the treasury bond as primary reserve asset by gold dynamic, you see that the dollar, the Treasury's share, treasury bond share of FX reserves, has fallen from 71%, 72% at the peak to 58% just in FX, and probably 50% or below, if you include gold in those amounts. And I think that's instructive for this dynamic, which is to say, yes, the dollar will still be dominant in the medium of exchange and the unit of account, but at the store of value function, world is de-dollarizing, full stop. At the FX reserve, the dollar share, when you include gold, might be a minority, already below 50%, and I think that trend is only going to continue, were Bitcoin to start to have some role in that, and as I expected, if gold continues to rise in price.

Erik: And let's talk about gold rising in price, and where that's headed, because I think, as you said, there's a lot of reasons to suspect, at least in the short to intermediate term, that the US Dollar continues to appreciate. That historically has been bearish for gold, at least in the short term, but it feels like we're starting to see that trade you and I have talked about for years now, which is gold and the dollar moving up at the same time as we potentially kind of shift the balance of power here between currencies. What do you think?

Luke: Yeah, I think ultimately, in the short run, I think the dollar probably does get a little bit stronger from a tactical perspective. But the thing I've been watching for, the metric I've been watching for in terms of turning points on the dollar, more sort of intermediate term, has been this metric of true interest expense relative to US receipts, true interest expense being just gross interest expense plus the current annual portion of entitlement expenditures relative to US receipts. And the higher the dollar goes, the higher interest rates go, the higher interest rates go, the higher interest expense goes, and the higher the dollar goes, generally speaking, lower stocks go. Once it gets beyond a key point, the lower that stocks go, and the lower that US receipts go. And so, once the dollar hits a level of “too strong for me,” too strong is once true, interest expense starts to near or exceed 100% of receipts. In other words, once the US’ gross interest plus its entitlement bill is more than 100% of tax receipts, that starts to really turbo squeeze the dollar higher as the US government crowds out global dollar markets, but it also starts to touch off a US and global debt spiral, where you're going to get dollar up, rates up, dollar up, rates up, dollar up, rates up, everything else down, except for probably gold, until either we get what we got in 3Q ‘23 or 3Q. ‘22 or 1Q ’23, where we get Treasury market dysfunction, big tails. I mean, ultimately, if policymakers continue to stand aside, you'll see failed Treasury auctions. We got close at the end of 2023 with that five basis point tail on a 30 year auction to an effective failure, per some of the bond market veterans that I'm friends with, but I don't think they'll ever allow that, an actual nominal Treasury auction failure to happen. And so, the point is, is that from a positioning standpoint on the dollar, in terms of when is too strong, and whenever we get over near 100% of true interest expense as a percent of US receipts. And

if we look back over the last four months, US interest, true interest expense as a percent of receipts, has been about 103%, so we're there. We're to the point where it's going to cause increasing problems in the treasury market. It's going to cause yields to go up. It's going to cause stocks to go down. And I don't think that's a situation the incoming administration is going to let go on for very long. And the answer to it, I think, will continue to be the answer to this type of action that we've seen repeatedly for the past five, six years, which is, Fed or Treasury are going to do something to weaken the dollar. And so, I think, tactically, it could continue to rise in the very short run. But I say that's why I think we're kind of, you know, this dollar rally, I think is getting long in the tooth. And for the same reason, it's gotten long in the tooth every other time for the last five or six years, which is, to be a little flip, it's all fun and games until the Treasury market loses an eye. And so, I think we're getting close to that moment of where the Treasury market is getting a bit, I don't think it's disorderly yet, but I think we can see disorderly from here, and once we get to that point, given the US government's debt load, they'll take what steps they need to do to weaken the dollar.

Erik: Let's talk about what happens when we get to that moment where, as you say, the Treasury market loses an eye, we start seeing what could be a fairly sudden decrease in Treasury yields. What happens to inflation at that point? Do we need to worry about secular inflation taking off?

Luke: Yes.

Erik: Okay, next question, elaborate.

Luke: Look at that. See, I can't answer a question in a single answer, right? This has been in the cake forever. This has always been in the cake because the Fed didn't let inflation run higher for longer back in 2022 and 2023, they didn't let inflation work debt to GDP down enough to be sustainable, to withstand their interest rate hikes. And so ultimately, you started to see it today, this non-manufacturing ISM prices paid, print came in hot, 64 and change. We've seen inflation bottom out and start to tick back up. This was always where the Fed was going to find themselves, because they screwed up in 2022 and 2023 by not letting inflation run higher for longer to get that the GDP from 125% down to 70%, 80%, and we would have needed to take probably 8% to 10% inflation for a couple years, and it would have been painful, and it might have caused a crisis, but in the end, it's what was needed and it was not what was done. And since mid 2022, we've been writing for our clients that because the Fed decided that they wanted to play Volcker 1980, with the balance sheet of Argentina 2002, literally, in the case of the US government, our debt to GDP and when they started, when the Fed started hiking, was the same as Argentina in 2002, roughly, they were going to get to a spot. The US was going to get to a spot, the Fed was going to get to a spot where, regardless of whether they tightened or loosened, the long end of the yield curve was going to go up on them. And I think we might be there. And the reason that is, if they hike from here, the dollar is going to go to two high levels. And foreigners, who are short $13 trillion in dollar denominated debt and long $8.5 trillion dollars in Treasuries, are going to sell Treasuries aggressively to raise dollars and service their dollar denominated debt, long end up. And if the Fed loosens here into bottoming and maybe

bouncing inflation, long end up, inflation expectations are going to rise. And so, this is one of these things where, like this was always going to work out this way, because they screwed up in 2022 and 2023. Courage was not acting like Volcker with the balance sheet of Argentina. Courage was acting like taking the pain, taking the inflation, acting like, I don't even know who was Fed governor from 1946 to '51 who got debt to GDP from 110% down to 55% in just five years by taking US real rates to -13%, that's what needed to happen, and it didn't happen. So, yeah, we're going to get, you know, inflation is already picking back up. I think it's going to pick back up more. I don't think the bond market is going to be, it's going to probably try to throw a fit, and it's going to force the policy makers to do something. And, oh, by the way, we're seemingly to try to go through an economic divorce with China. And to me, it strains credulity to think that bringing China into the global economy and offshoring the US factory base to China was disinflationary. It strains credulity to think that bringing it back and divorcing from China will also be disinflationary. I think the restructuring of the global economic and trade system that appears to be underway and is likely to accelerate under Trump, I think that's going to be inflationary too.

So to me, it kind of sets up an interesting overriding view of markets that I think is a variant perception, which is, I think most market participants are still playing by the old rules of the last 40 years, which is, whatever is good for the bond market is good for America. And the bond market can push everybody around, as James Carville said in the Clinton administration, and I don't think that's going to happen this time. We can sort of do all these things that Trump wants to do, and we can restructure and reshore, and we can build a strong military and support our allies, or we can let the bond market be priced at a market rate, but we can't do both. And consensus is that the bond markets can be priced at a market rate. I don't think that's right. I think what's going to happen is we're going to get some form of de facto, I don't think they'll ever do explicit yield curve control, but I think we'll do some form of de facto yield curve control, some sort of cobbled together version of it, regulatory changes with banks, repression, etc., and the restructuring of the US economy and global trading system will be paid for by bondholders on a real basis. They'll get every dime on the road. They'll just lose money on a real basis.

Erik: Speaking of variant perceptions, Luke, something I'm noticing is, I think a lot of market participants are people who like President Trump's policies, even if they don't like Trump personally, they're people who like the idea of lower corporate taxes and things that they perceive would be good for markets, and they seem to be discounting the success of a lot of these policies, the DOGE effort, dramatically reducing government budgets and so forth. It seems to me that they're missing a couple of points. One is, just the reality of this, although president elect Trump can't be faulted for playing politics, all politicians do that. The reality of this DOGE situation is the discretionary US budget, the stuff that they cut everything and fired all the employees, the debt service is most of tax receipts. So, I don't think it's possible to have some of the economic outcomes that are being promised by the Elon Musk and Vivek Ramaswamy team in DOGE because there's not enough discretionary budget to cut to achieve what they want to do. And at the same time, I don't think people are adequately discounting just how much the people who don't like President Trump are going to try to sabotage whatever he tries to do. So, is there a variant perception trade here, which says maybe people are assuming that President Trump is going to be able to be more successful than that he really could be

given realities of just, you know, how big the tax receipts in comparison to the discretionary budget are?

Luke: Yeah, in in the short run, absolutely. And I think that factors into my initial point of the next two to three months. I just have no conviction. And the outlook, I think it's going to be bumpy because of the lack of visibility on the political outcomes, and sort of the 16 cooks in the kitchen all pulling in different directions, as it relates to DOGE specifically. So, something I've been pretty vocal about, actually, is because I think it's important, if Elon and Vivek do what they say they want to do in the wrong order, they'll create the worst crisis since 2020 and 2008. It'll be a catastrophe, and it will politically handicap Trump and probably the Republican Party for years. I think Trump will be a lame duck, at that point on. What I mean by that is, we know that the deficit is 7 points of GDP, roughly today, let's say they cut 4 points of GDP quickly. 4 points of GDP, that's, what is it, about a trillion dollars, little more than a trillion dollars. So half of the 2 trillion that Elon threw out there. Let's assume that none of it is interest expense, because if it's interesting, like that part of it is pretty easy. I had a tongue-in-cheek post a couple of weeks ago, and it was like, half tongue-in-cheek, but like, look, they cut rates to zero and finance it all in the bill markets. I could cut a trillion, 2 trillion, 3 trillion, out of it, out of the deficit today.

Now, the outcome of that is, inflation is going to boom and the dollar is going to fall, and tax receipts are going to boom, and the stock market's going to boom, and the economy is going to boom. And maybe that's what they mean, and if that's what they mean, then that'll work, and inflation is going to be the release valve, dollar's going to the release valve, and that's fine. That's been in the cake ever since we started doing dumb stuff with borrowed money 25 years ago in the Mideast. But if they're not talking about slashing rates, to slash interest expense to reduce government spending, then you're looking at a budget of, call it $7 trillion of outlays. You can't touch 1.3 trillion, we'll say of interest. So, we're left with $5.7 trillion of outlays we can touch if we cut 4 points of GDP from anywhere on that, 4 points of GDP would only take the deficit back to 3% of GDP, which is still historically high, by the way, but it would probably immediately put us at or near a recession. If we go into a recession, the last three recessions in the United States have seen the deficit rise by 600 basis points of GDP, 800 basis points of GDP and 1200 basis points of GDP. Let me restate this clearly so people understand what I'm saying. If they DOGE and cut the deficit from 7% of GDP to 3% of GDP, the resultant recession will drive the deficit to 9% of GDP, 11% of GDP, or 15% of GDP, the deficit will actually rise because of the counter cyclical payments, the decline in receipts, etc. That's bad enough. But then when we layer on top of it, in recessions, the dollar tends to go up. In DOGE the recession, or in DOGE in cuts, the dollar would probably go up and go back to what we started the show with, if the dollar goes up and gets too strong, foreigners, they've borrowed $13 trillion in dollar denominated debt, it is going to squeeze those foreigners on their debt. It is going to force foreigners to sell dollar assets, and in particular, the $8.5 trillion of treasuries they own, they are going to sell treasuries as the US deficit rises in a recession or close to a recession, and so the US government's deficit will be going from 9% to 15% of GDP, right? And that's just, as I said, we went from 7% to 3% of GDP deficit. But then we go up by 600, 800, 1200 basis points, right? So, 300 basis points, plus 600, 800 or 1200, is 9% to 15% deficit as a result of DOGE paradoxically. And that's just the net impact. Then you're also going to have foreigners selling a

lot of the $8.5 trillion dollars they have in treasuries, alongside the US Treasury, to raise dollars. And who's the buyer in that? So, you're looking, if Elon and Vivek try to cut just 4 points of GDP, not interest, just and take GDP down by 4 points immediately, and they're talking about nearly 8 points of cuts in 12 to 13 months, the deficit will be higher. The US will have a recession, and in that recession, US Treasury yields will rise, potentially meaningfully. And that's why, I mean, it'll be a worse crisis than 2020, or 2008, and that's why I say the order of operations must be respected. And the order of operations that must be respected is, if they weaken the dollar or devalue US debt to GDP in some way, in a major fashion, first and then do DOGE, then it can work. It could work because you're going to juice receipts and you've got something to work with. But if they do it, DOGE first and cutting non interest, you know, setting interest aside, not cutting interest rates and cutting something else, they will crush the economy. They will increase the deficit, the GDP, 12 months out, they will lose the Republicans of the house. They will lose the Republicans of the Senate. They will make Trump a lame duck, pretty much from six months in, and they'll probably handicap Vance's political career too, at that point. So, I think Musk and Vivek need to be very, very careful about what they're doing and talking about, because I don't get the sense they understand that. And I think that, I mean, that is a big reason why I'm so non-committal for the first two, three months of this year, because I just don't know how much pull they really have. And if they have the pull that they may have, and they try this like ‘Katy, bar the door,’ it's going to get ugly.

Erik: Speaking of ugly, Luke, let's go a little deeper into that scenario. Because, look, let's face it, the new Trump administration poses an existential threat to establishment Washington, and that's not my politics speaking. That's stated policy of President elect Trump, drain the swamp, fire half of the federal government, end the forever wars, reform the intelligence community, end the dominance of the military industrial complex in policy making. These are existential threats to establishment Washington, and I think it's clear from their messaging. Just the other day, President Biden said that President Trump poses a massive threat to the national security of the nation. You know, you don't see an outgoing president making statements like that about the incoming president after the election is over. I think it's almost unprecedented. What it says to me is that the people who are threatened by the incoming Trump administration will be willing to do anything, including sacrificing financial markets, sacrificing the economy in order to sabotage President Trump, to make sure that he's not successful, and to try to foment that outcome you described, where you get to lame duck status within six months, and Vance has no chance of taking it forward, and you're going to go back to a Democrat controlled government as soon as we get through the next four years. Imagine yourself, Luke, if you were a consultant in a war game scenario and you had to advise establishment Washington. What could you do in order to sabotage the Trump administration economically? What would you do in financial markets in order to sabotage Trump and DOGE and make sure that you have the outcome you just described. What would they do, and could it be successful? Are there things that we need to watch for that President Trump's enemies will be doing in order to try to bring about that outcome?

Luke: Well, I mean, I think with the scenario I laid out, it's a pretty good one. I would try to, you could DOGE before you devalue the dollar or the debt. That would do the trick, trying to term out

the debt too much without some sort of concession on the value of the dollar, or something that would do the trick. It's a kind of a tough question in terms of some of those. I mean, those in terms of what you're looking to do. I mean, it is really something. Doge would absolutely do it. If you DOGE without devaluing the dollar or reducing the dollar debt first, you'll do it. I'm hard pressed to come up with a better way of handicapping what President Trump wants to accomplish than pursuing what Elon and Vivek are doing. If they do it before the dollar is devalued or the debt is devalued, look, if Bessent comes out and says, hey, I've instructed the Fed to revalue Treasury's gold to a bunch, and I've got a couple trillion bucks into TGA, and I'm buying down debt to GDP from 125% to 90%, 80% of GDP, like great, then Vivek and Elon can DOGE away, and they're not going to sort of blow things up. But failing something drastic like that, or a significant weakening of the dollar ahead of that, or some sort of use of Bitcoin to basically upsize Bitcoin, to have tether by a lot more in T bills, then Elon and Vivek doing what they're doing without any dollar devaluation, is about debt to GDP reduction in a very short order. Those two doing that without devaluing the debt or the dollar first is probably the perfect, like, that's how you would Red Team handicapping the Trump administration as quickly as possible from the very first.

Erik: Let's talk about what that would mean for investors. Suppose that you see those warning signs where the new Trump administration really unleashes Elon and Vivek, they are dodging away, but at the same time, we're seeing a strengthening of the dollar. We're not going to implement any policies to intentionally weaken it. And it seems like the risk scenario you're describing is starting to unfold. What should investors do defensively at that point? Where are the biggest risks in the markets, and what do you do to cover yourself?

Luke: You own the dollar. You buy puts on some portion of your portfolio, on the NASDAQ, you buy puts on Bitcoin. You buy puts on the S&P 500. You buy puts on TLT, the long bond, and you probably own a little gold, it's going to be dollar up, everything else down. And at some point in that, if they continue to stand inside, gold will really start to get a bid, because there will start to be concerns about bank solvencies and credit, etc. It could get really ugly, really fast.

Erik: Luke, let's take that a little farther. Imagine this is starting to unwind. Things are not looking good, and let's suppose that President Trump's enemies want to see markets crash because they want to sabotage him. Can it keep going, or is there a breaking point where the dollar is going to correct sharply lower no matter what anybody does?

Luke: My first principle continues to be that, ultimately, the dollar liquidity needed will be supplied in order to maintain the functioning of treasury markets, the banking system, etc. And so, whenever that, if that liquidity crunch, that dollar spike driven crunch, were to drive that type of action, I think ultimately it will be attempted to be stemmed with dollar liquidity once it begins to threaten the Treasury market in the banking system, which given where we are, probably wouldn't take too long. I mean, I envision some sort of scenario where, if it were to happen, I don't think it would be too dissimilar to what we saw in COVID, and perhaps even more compressed, which is to say, markets peaked like, if I recall correctly, last week of January of 2020, and bottomed second, third week of March. And then the Fed came in with whatever it

was, $600 billion a week in QE. And away we went. And I think it could be even more compressed this time. And it was, if you're running an institutional portfolio, it's going to be really challenging setup in terms of repositioning wholesale. You can be right before and wrong after, or you can be wrong before and right after. I think the right way to manage it is to hedge with options of the potential downside risk and the volatility, while ultimately keeping an eye toward them. The most likely scenario, in my view, which is ultimately that liquidity will once again be provided in whatever amounts required in order to maintain Treasury market functioning, which has been and continues to be, in our view, the Fed's shadow third mandate. So that's how I'm thinking about it.

Erik: Well, Luke, I can't thank you enough for a terrific interview. As always, it's great to have you back on the show. Before I let you go, though, please tell our listeners a little bit more about what you do at Forest For The Trees, what services you offer and what people can expect to find at fftt-llc.com.

Luke: Thanks, Erik. We aggregate a large amount of different publicly available data points in a unique manner trying to do identify developing economic bottlenecks, and they can learn more about our different institutional and mass market products at FFTT-LLC.com and I've got a pretty active X feed, @LukeGromen.

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