



MACRO Voices

with hosts Erik Townsend and Patrick Ceresna

Jim Bianco: This Is The End Of The Beginning

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Erik: Joining me now is [Bianco Research](#) founder, Jim Bianco. Jim, it's great to get you back. I got to tell you, buddy, I think you were probably the most prescient of our guests this year, this calendar year, or in the last year, for that matter. The last time that I had you on, you said, look, it's time to reset our expectations. The Trump and Bessent have big, big ideas. They're not just jiggering a little thing here and there. They really want to change the structure of the system. We've got to be ready for them to have some big ideas, and you perfectly set the stage for what was coming with the tariffs. Now, what I'm seeing, Jim, is almost everybody seems to be feeling like, okay, seems like maybe this tariff battle is starting to wind down. And I don't know what your take is, but my feeling is okay. If that's really winding down, the right question to ask would be, what does Trump have next on his list, after tariffs? And it feels to me like everybody's saying it's done now? Is it done now? Is something ending, or are we just at the beginning? And how should we be thinking about where we are in this process?

Jim: No, thank you for the kind comments. I think no, we're kind of at the end of the beginning is where we're at now. As far as tariffs winding down, let me take that part first. I've said, you know, the problem I have right now, within the messaging that you get out of tariffs, there's two messages that a tariff can employ. One is leverage. I'm going to use this club to beat you unless you give me what I want. And what I want is freer trade and more access to your markets. If you're going to use tariffs for that, I think everybody's fine with that, and that is what kind of everybody wants, and that's a bullish outcome. But if you're going to use tariffs as a source of revenue and create the external revenue service, and we're going to raise all this money, and we could do away with income taxes, that's just a massive tax increase, is what that is. And that is problematic. The issue that I have with Trump, Trump especially, is he kind of says that they're both tariffs and revenue in the same sentence. And I was like, well, they can't be both at the same time. They're either one or the other. So, when people start to say winding down, that the tariffs are winding down, I think what they mean is there's going to be leverage. The leverage is going to result in what we saw with the deal with the UK, an opening of markets, a less restriction on being able to push goods into each other's markets, a leveling of the playing field. I'm not so sure that that's really what it's going to be at this point, and so we'll have to see where we go with the tariffs.

Now, to the second part of your question, what's next? As well, when I was on with you last time, I said, look, he is talking about a reordering of the financial system. I'll remind everybody that in June of last year, Scott Bessent spoke at the Manhattan Institute, and he said that we're in a rare period of time that only comes around once or twice a century when we completely

reorient the global order. And now he's talking about the monetary and trading order, maybe not the political order, but that might flow from it, and that he wants to be part of it. And, well, he's the Treasury Secretary, so he's definitely going to be part of it now. And so, I think that that's the second part that's coming, and what that's really going to be is, if I had to put it bluntly, the United States has a debt and deficit problem. We have too much debt. Our deficits are too big. There is an inability of Congress to cut spending, and so we need to find more revenue. Tax the rich. Well, that's not going to work, we've tried that. Tax the middle class. That's not going to work. We've tried that. Well, who else is there to attack, tax? Tax somebody who doesn't live in the United States. And so that's what tariffs are. That's where the other thing that's been kind of lost in the shuffle a little bit, is the idea that Europe needs to step up and spend more on their defense so we don't have to.

And then the other idea, which is this, from when we're recording the week before Trump gave a speech in Saudi Arabia where he talked about, that the main benchmark going forward from here is not going to be ideology and war. It's going to be trade. And I want to do deals with Iran. I want to do deals with Gaza. Remember, he wanted to build a hotel in in Gaza City. He wants to do economic deals with everybody, which means less of an impetus for the idea of conquest in war. So, this is very different than what we've seen before, and this is a different type of global order that we're going to. And the last point I'd bring up about this is, I agree with Trump that the status quo could not hold. We were at a point with debt, deficits, the imbalance of trade. Look, we set up a World Trade Organization, and we set up a lot of these trading rules over a generation ago, and they're not really applicable for the kind of economy that we have now. We had to change. Now, we can quibble whether or not this is the right change, and this is my pushback against the Trump critics. He's proposed a bunch of radical policies to change. Okay, you don't like them. The answer is, let's just go back to the status quo. The answer is, give me another set of radical policies to change it to. But we're going forward with this kind of change, and we have to start to accept it and the ramifications for financial markets they're in.

Erik: Let's talk a little bit more about what's happening now with the tariffs. Because, as you said, there's been mixed messaging here. Some of the messaging was, look, this is kind of a bluff game. It's about scaring the other side. There could be 100% tariffs, you know, you better come to the negotiating table. The idea is to get them to the negotiating table so that you can end up settling on a very low number for how big the tariff is. But then there's another agenda, which is, hey, we could maybe eliminate income tax in the United States for most people by having actual high tariffs all the time. That's a very different agenda. Which one are they actually working on? I can't tell.

Jim: I can't tell either. I mean, the problem is, like I said, they literally – Trump, especially – says the same thing in the same sentence, both of them in the same sentence. And like I said, they're very, very different at this point. Now, let me just say one thing about the leverage aspect of it. I think it gets misreported a lot. Well, we had 2% tariffs, and we already had a level playing field. Yeah, that's the tariffs that we charge. But there's a lot of non-tariff barriers that countries have, you know, environmental standards and safety standards and cultural standards and health standards that they put on products. Oh, yeah, we're not going to tariff your product

coming into our country, but if you don't meet these environmental, safety and health standards, your product can't come into this country. And in order for me to adjust my product to get it into your country, it becomes prohibitively expensive, and I can't compete. And so, there's a lot of that that needs to be kind of oriented or fixed around the edges. Europe is probably the biggest abuser of this. Mario Draghi, the former ECB chairman and Prime Minister of Italy, wrote a piece in the FT in February and said, forget the US. Look at what we do between health and safety and environmental standards, between countries, between France and Germany and Spain and Italy and the like, and that they greatly add to the product prices of those because they put all of these different standards per country, but they're not charging tariffs. So that's probably the thing that needs to be fixed, and that's the leverage part of it. But you're right. He keeps talking about the other side of it being the revenue side, and I think that the revenue side is going to come down to two statements that were made in the two days before we recorded over the weekend. Well, let me back up. First, last week, Walmart had their earnings report. Doug McMillon, their CEO, said, look, we're going to start to see prices being raised in Walmart stores by the end of the month because of tariffs. And then Trump tweeted at him, or I guess it was on Truth Social, and he put in big capital letters, 'eat the tariffs,' and that he doesn't want these tariff prices passed along to the final consumer.

And then Karoline Leavitt, his Press Secretary came out the day before we're recording, yesterday for you and me, Erik, and she said, China is going to absorb most of these tariff increases. And I've joked, and I said, look, if Karoline Leavitt is right, Trump has found a way to pay for Social Security, Medicare, defense, disability, by not taxing the rich or the middle class. He's going to tax the Chinese to pay for this stuff, because they're going to absorb some big increase in tariffs. We should start chiseling them onto the side of Mount Rushmore right now, if he could pull that off. Now, I say that sarcastically, because I don't think he's going to pull that off, and that's really going to be where the rubber hits the road right now. As mentioned before, you know, the trueflation numbers, if you look at true inflation, those numbers are starting to move up. That is a daily measure of millions of prices that are aggregated into a number that approximates a CPI. It's up 60 basis points, six tenths of a percent. That's absolute up, not on a growing basis, in 18 days. That's the impact that tariffs are starting to have. And I think if we start to see prices going up broadly in the next month or two or three, and that's what I think we're going to see, and we're not going to see Walmart eat the tariffs, and we're not going to see China absorb those prices. Then I think this idea that tariffs are going to be this permanent revenue increase is really going to come under question, because that means Americans are going to be paying that, and it's just a tax on Americans. But if it doesn't, if we don't get that inflation, then that means the Chinese are paying it. Like I said, put them on Mount Rushmore if you get the Chinese to pay it. But I kind of doubt it. So, I think at the end of the day, we're going to see, we're going to have to see where we go. I think we're going to get price increases, I think that's going to push pressure on keeping these tariffs over the long haul, and that they're going to be used as leverage to open trading markets and to make a more level playing field.

Erik: Does that eventually lead to tariff driven inflation? And does the tariff driven inflation become a political issue? In other words, if Trump gets blamed for causing inflation through tariff policy, that's a very different social outcome than the one that he's aiming for.

Jim: Absolutely, I think it does. And put a little nuance on this for people that are listening to this, when you buy something at the store, there's the price in the shelf, and then you go the cash register, and then they add the sales tax, and then you pay your final price. Why don't they embed the sales tax into the price of the product, like they do in Europe? Because we want to separate prices from taxes. We don't include taxes in inflation, but in a tariff, it is embedded in the price. In fact, Amazon tried to, floated the idea that they were going to separate out, here's the price of the product plus the tariff, here's the price you pay. And Trump put another truth around at them, basically calling them anti-American or un-American, and then they backed off of that real quickly. So, I know people would say taxes are not inflation. Well, in this case, they are because you can't separate them out. So, if tariffs push up the price of stuff at the store, it's going to show up as higher CPI and higher PCE, both at the core and at the headline level. And all things being equal, if CPI and PCE go up, there is no way the Fed is going to cut interest rates. There is no way that the bond market is going to look past that and say, well, we could start to rally bonds. Even if you believe that that might slow down the economy, I'll point everybody back to three years ago. Three years ago, first quarter of '22, negative GDP, but inflation was rising. What was the Fed doing in response to the negative GDP? They were hiking rates. And by the second quarter of '22, they were hiking rates at 75 basis points in a meeting to deal with higher inflation. I think what I hear from the commentariat is, let's spend 95% of our effort talking about why the unemployment rate is going to go up, why the economy is going to slow down, why we might have a recession. And they might not be wrong. And then they'll say the 5% of their effort is our prices might go up, but we're going to have a recession, so the Fed's going to cut rates. And I'll be blunt, if the other 5% is, if prices are going to go up, good luck with your recession. They're not cutting rates. They will not cut if prices go up, they are inflation-first. They were in '22, they will be again in '25 and '26. And so if this does lead to higher prices at the store and more unemployment and lower GDP and less consumer spending, there will be no cut. Unless, you can make the case that it is such a bad reversal of the economy that it offsets whatever inflation increase we would get. Your first indication that it would be a bad reversal would be what the stock market was doing in April. But now that we're into the end of May, the stock market is up on the year, so it's not signaling that something bad is going to happen. So, I think we have to understand that we're going to get this inflation, and it's going to keep interest rates up, and it's going to keep the Fed from cutting rates, even if the economy slows.

Erik: Jim, you're talking about reasons that the Fed might not be able to cut rates. Of course, President Trump's commentary has been very much about how the Fed needs to cut rates and do so immediately. The President appears to be threatening to fire Jay Powell, despite the fact that the Fed is supposedly independent, and the president can't theoretically do that. Jim, where is this headed?

Jim: I think, it looked like it was headed for a showdown, because Trump had made noise about firing Powell because he wanted lower rates. Quick word about lower rates. Let's remember what Trump is. At the end of the day, he's a New York real estate guy, and he was the one who originally appointed Jay Powell, way back in 2017. And the joke I like to say about

him being a real estate guy is that he became aware in Europe that they had negative interest rates. And then he was told that what a negative interest rate is, you take out a mortgage on one of your buildings, and the bank pays you an interest rate every month. And being a real estate guy, he thought, man, this is the greatest thing ever. Why don't we have it in United States? And then he was told, because Jay Powell doesn't think it's a good idea. And he's hated him ever since. And so, I think that that's why he's made this talk about Jay Powell being too late, is what he calls him, too late Powell, he's made noise about firing him. You're right. It's never been tested in court. We don't know if he has the power to fire him. He'll fire him. They'll sue. They'd have to go to court for months. But Powell's term is up in less than a year. So, Trump has said he could fire him, but he won't, but he won't reappoint him in a year, and so we'll have to see who he winds up taking in a year. And the leader in the clubhouse right now is Kevin Warsh. He is a former Fed governor, Morgan Stanley banker. Donald Trump has known Kevin Warsh for almost 25 or 30 years. He's very comfortable with him, but you know, there's still 11 more months to go, and things can change. But it looks like he would come and then the expectation is that person would then start cutting rates in a year.

Now, quick word about cutting rates. I want to go back to '22 and then compare it to last year. In 2022, the inflation rate hit 9% and the highest 10Y yield throughout the entire calendar year was 4.22%, and that actually occurred in October, when we were past the peak. Right now, as we're talking, the 10Y yield is at 450 and the inflation rate is at 2.3% on headline, about 2.8 on core. Why are we at a higher interest rate today than we were when we were coming just off the 9% yield three years ago? Three years ago, the Fed was, as I mentioned earlier, raising rates, at one point, by 75 basis points a meeting. When the Fed is on the case fighting inflation, I, as a bond holder, can relax and don't have to get rid of my bonds, so yields don't go up. But when the Fed gives up on the inflation fight, I then start to worry about owning bonds, and I sell them. And if you want an example of that, last year, September of last year, the 10Y note was 3.6%, the Fed cut 50 basis points. They followed up in November with a 25-basis point cut in December, with another one for 100 basis point cuts between September and the end of the year. Over that same time period, what did the 10Y note do? It went from 3.6% in September to 4.8% in January. It rose well over 1% or 100 basis points. There is no other example of the Fed starts cutting rates and the 10Y goes up by that much in at least the last 40 odd years, maybe even closer. You'd have to go back to basically 1981 and the secular peak of interest rates in order to find the last time that's happened. Again, why did that happen? If you're not interested in fighting inflation, I'm not interested in owning your bonds. So, Donald Trump has to be careful. It's not an issue now, because Powell's not going to do it. But next year, if he thinks, I'll put Warsh in, or I'll put whoever in and their job is going to be to aggressively cut rates, you could wind up telling the bond market you're on your own when it comes to inflation. We're going to stimulate the economy into higher prices, you'll abandon the bond market. That's, bond players will abandon the bond market, and the result would be just like we had in late '24, cut rates and long rates go up. That's what we have to be careful of now. Maybe the environment changes in the next year to year and a half, that would necessitate a rate cut. But if it's like it is now, and if Trump had his wish today and the Fed came out and said, we're going to cut rates, I think the response would be higher long-term yields, not lower.

Erik: Let's talk about what this means for the bond market, structurally long-term. Because really, what you're saying here, Jim, is that we're at a moment in history where the United States of America is re-evaluating its strategy, its government strategy, for how it's going to deal with its debt, how it's going to finance itself. And as you've said in the past, they're thinking really big. They're not afraid to make major structural changes that were considered beyond the realm of possibility just a few years ago. So, what does this mean for the outlook for bonds, if we don't even know how the US government strategy is going to come together here?

Jim: I'm going to use the often overused line, but does seem to apply in this case, and that is that there's tremendous uncertainty about bonds, and so that's going to keep the premiums on bonds a little bit higher, just like it's keeping, depressing equities for the same reason. But one of the concerns about the strategy, one of the concerns about the bonds, big picture, is twofold. One is, if there is an absolute commitment to dealing with inflation, the President, the day we're recording, literally an hour or two before we recorded, he was speaking to the cameras, and he was taking good credit for there is no inflation. He thinks there isn't any. He thinks he's defeated it, that egg prices are down and that gasoline prices are down. There is no inflation. As a bond investor, if the Fed started talking like that, I'd be very nervous. I want them to protect the purchasing power of my fixed income investment. I don't want them to watch and let inflation eat it away. But the President is definitely there. And then at the same time that this is happening, we've got what is called the 'big, beautiful bill' in Congress. This is their budget reconciliation bill, all wrapped up into the same thing, which is going to what is referred to as the Trump tax cuts. I think that the Republicans did a terrible name disservice to themselves for naming it the tax cuts, because there is no tax cut. It's just going to keep the rate the same rate that it's been for the last seven years, so there would be no tax increase. But no one's getting their taxes cut. And on the spending side, on this bill, they're not cutting anything. It's going to be just a gigantic boondoggle of pork spending, to the point where the House Freedom Caucus, this is a bunch of fiscally conservative Republicans, put their foot down and said, we can't vote for this with a two-seat majority the Republicans have in the house. This bill is stalled in Congress for the moment. Now, maybe speaker Johnson can find a way to get around it. But to my bigger point, if you're going to just continue to spend like crazy and talk a good game about reining in the debt, and you're going to wind up leaving us with all this uncertainty, the path for yields is going to be higher. And then add in what we were talking about a minute earlier, well, we're going to get higher CPI, and we're going to get higher PCE, because we're going to get tariffs embedded within those prices. Yeah, you could say to me that they're one time increase, and you could say to me that they're not really the increase in prices, they're increase in taxes. But again, the market doesn't nuance things sometimes like this. It just says, look, the inflation rate's going up. I don't want to own these bonds at this level, because the fear I have is that the Fed will be under pressure to abandon the inflation fight, stimulate into these higher prices and allow people to continue to pay them, so that prices could go even higher, and that would be even worse for bonds. So, the path for the least resistance for interest rates is up.

Erik: Jim, let's talk about how gold fits into this picture. We saw a recent, looks like it almost might have been a blow off top at 3500 but it seems like the market's consolidating and getting ready to maybe challenge that high again. Where is this all headed? I kind of feel like the easy

part of this gold bull market is over. We're into the, you know, the big parabolic move up phase. The thing is, I know that leads to a blow off top. I just don't know if that happens at 3600 or 8600.

Jim: Yeah, I agree with you. I mean, we did seem to have that blow off top again. Gold is, you know, whenever you get unsure about the financial system, and look, the Treasury Secretary is telling you, we're going to reorder the financial system, I would say to you, I think it's necessary, but that doesn't mean it's not risk. It's got a lot of risk. The idea could be right, we need to change, but we could do it wrong. So, you want to try and get your money, 'out of the financial system.' Now, there's kind of two ways you could do it. Crypto is one, and gold is the other one, although in both cases, you're not really totally out of the financial system. You're only partially out, and that's what you've seen over the last several months. Both of them do very well. Bitcoin is still over \$100,000, gold, as you said, parabolically blew off to \$3500. And now it's backed off with the idea that maybe these tariffs, the tariff rates came down, we're talking, maybe these will lead to being tariffs being leveraged, that will open up, and we'll have more trade, fair trade, an even playing field, which is then an idea that you would want to shift back into risk assets, if that's the case. Or, maybe we find out that they're going to be a little bit more chaotic as we go forward, because they're going to move on to other things, and maybe the tariff story won't go as seamlessly as we think, and then gold will come back into vogue. I want to get my money away. I want to protect my money. I think that gold will come back because I think that this story, while necessary, this is kind of Neil Howe's Fourth Turning, kind of stuff. It's necessary to have a fourth turning. You can't skip it and go from the first turning to the third turning, which is autumn, to the first turning, which is spring, you still have to go through the winter. And so, it's kind of necessary that we're doing this, maybe not necessary that we're doing it in this particular way. And that's why I think that the final story has been written, and gold will have another run. Still might be a couple more months, but I still think it's going to have another run, just like I think things like crypto will also have a run as well, too, for largely the same reason.

Erik: Are we headed toward a moment of reckoning in the next few months, where at some point, the American public kind of wakes up and says, oh, wait a minute, this tariff thing sounded good when it sounded like the President was just going to, basically, tax foreigners instead of taxing Americans, get the taxes paid by somebody else. Yeah, I like that. Wait a minute. It turns out that the foreigners didn't pay the taxes for us. They just passed them along, and we've got this tariff driven inflation. Are we headed toward a moment where everybody who was kind of happy about this direction and supporting the president, in other words, are we headed toward a moment of collapse and the President's support as people realize, oh, there's no free lunch when you tax somebody else, the potential is that they're just going to pass that tax back to you.

Jim: I think that that's a real risk, and I'll throw in a statistic about that. According to National Association of Retailers, 50% of all retail sales in the United States is now done by the top 10% of income, and that's the most concentrated it has ever been. So, if you see tariffs going up in price, and prices of things are getting more expensive, and people say, well, that means that we're going to have a collapse in unit demand, because people can't afford that stuff. Maybe not. Maybe what we're going to see is that the top 10% that does have the retail sales, has the

ability to pay those higher prices, and the bottom 50% does it. And so, the bottom 50% bears an undue burden because of these higher prices, because they don't own homes. They don't have portfolios of ETFs. They're not tracking the price of their home every day on Zillow to see what their net worth is. They have a job, and they have an income, and they hope that if tariffs raise prices by 4% or 5%, CPI goes up by 4% or 5%, and some Fed models have suggested that that's possible by the end of the year, that they better get a 4% or 5% raise from their boss, otherwise they're going to be behind. Now, maybe people in the top 10% might not get a 5% raise, but they got enough net worth that they can shoulder those extra incomes, and so that's where the big reckoning will be. Now, what am I describing? I'm describing exactly what happened three years ago, and I'm describing the response to the election, inflation went to 9%, the bottom half of income was hurt very badly by that. And then by the time you get to 2024, if you looked at the polls, they said, what is the number one economic issue in the country in 2024? And the public said, inflation. And the administration, this would be the Biden administration in '24, correctly said, well, wait a minute, the inflation rate was 9% and now it's 3% so we're getting rid of the inflation. The inflation rise is so scarring to everybody that even after it came back to 3%, the bottom half of income being sold, vulnerable to inflation, was still triggered by that word, even when it was back to 3% in 2024. We do that again because of tariffs, the bottom half of income is going to be beside themselves, that they're going to have to shoulder this blame. And yeah, there's going to be political consequences to this. We'll have to see how it shapes up and where it shapes up and the like. And more importantly, if I say there's going to be political consequences, you might be saying, yeah, that means the Republicans will get routed in the midterm election. And that's very well could be the case. But I think before we get there, the Democrats are going to have to articulate how you're going to solve this. Because, are you just going to say, forget it. We'll just undo the tariffs. We'll just go back to 2024 and 2023, the status quo, and we'll just run \$2 trillion deficits for as far as the eye can see, and don't worry about it, because I don't think that's an acceptable answer, too. As I said earlier, if you don't like this radical policy, then give me another radical policy to replace it with, but going backwards, I don't think is going to be an option.

Erik: Jim, let's translate everything we've just talked about to an outlook for markets. What does this mean for bond yields? What does it mean for return on stocks? What does it mean for commodities, and what does it mean for interest rates?

Jim: So, in a period of big change, like we are, and sometimes change is not necessarily bad, don't read that word as being that it's going to be bad. There's going to be a transition period. So, I've called these markets the 456 markets, that over the next several years, not necessarily 2025, but over the next several years, if you have money in the T bills or in the money market funds, you'll get 4%. If you have money in bond funds or bond ladder or something like that, you'll probably get them to return you about 5%. And if you have money in this equity market, I'm talking about the broad indexes now, and I'm talking about the domestic indexes, you'll return about 6%. No, no, that's not terrible. Because I think we're in an elevated inflation world of about 3%, so I like to joke not 8%, 10%, or Zimbabwe. So, if we're in a 3% inflation world, and cash will give you 4%, and bonds give you 5%, stocks give you 6%, it's not the worst thing in the

world. But a lot of people might think that, because it's not the 22% we got in '23, or the 25% that the S&P got you in '24.

So, why 6% on stocks? I'll start there and work down, because of the valuation in the stock market, the valuations in the stock market are very high right now, some people call it overvalued. I don't know what the difference is between high valuation and overvalued, but it's very high. And I'll use the Shiller, CAPE ratio, the cyclically adjusted PE ratio. It's at 36, it's one of the highest levels it's been in the 150 years that Bob Schiller at Yale University won the Nobel Prize in 2013 for his asset valuation model, which is based on the CAPE ratio. Is that at 36, what that typically tells you is that you should be looking at the stock market over the next several years to return you about 3% more than the inflation rate, maybe 4%. So, if we're at a 3-ish percent inflation rate, you're looking at 6%, maybe 7%, but let's call it 6% because makes the numbers work better. So, like I said, that's not terrible. Now, why is that? Because when you buy a 36 PE or you buy a highly valued company like one of the MagSevens, does that mean it's got to go down? No, it means everything's got to go right. And everything, if you're going to have major change at the same time and ask that everything also go right? That's a tall order. That's why I think the stock market slows down and its return. Bond market of 5%. Well, that's the average yield right now in investment grade bonds, is somewhere around 5%. It's actually 4.91, or something like that, according to the Bloomberg aggregate index, and that's an index that measures all treasuries, all investment grade corporates, all investment grade mortgages and all investment grade agencies. About \$30 trillion in that index, and so 4.90, so that's really what the coupon is on the bond market right now. And I think that over the next several years, if you bought a bond portfolio, it will churn you out the coupon. You know, some years you might have a little bit of capital loss because prices go down, yields go a little bit higher, but then the next year you have higher coupons to kind of offset that, so you get about 5%.

And then finally, cash of 4%. Well, the funds rate is 4.25% to 4.5%, and we're all talking about when the Fed's going to cut rates more. The real question you ask is, what is the neutral rate? Now, I said earlier, the inflation rate's 3%. I think it's going to be 3% as we go forward, not 2% or lower as the Fed is assuming that it is that was the previous cycle, was 2% or lower, which ended and we're in a little bit more of an elevated cycle. In my opinion, they use a term called R-star, which means, okay, take that long run inflation rate of 3%. I'm going to take 3 minus my number, and you put in a premium of about 1% on that, and that gets you to 4%. That's the neutral funds rate. So, when we talk about how many more times is the Fed going to cut, or when is the Fed going to cut, the assumption built in there is that the Fed thinks that the neutral funds rate is still around 3%, 2% inflation rate plus 1% gets you 3%. The R-star plus 1 gets you 3. I think it's closer to 4. And if I'm right on this, maybe there's one more rate cut in total, and that's not even necessary at this point, and that if we're at neutral over the next several years, that's what cash or money market or T bills will return you. So, we're in 4 or 5 or 6 markets. As I said, that's not terrible, that's not disastrous. But I know there's this expectation that, you know, of 20% in largely driven by that's what it has been giving us over the last several years, but when you got to 25 two things happened. You had very, very high valued markets, meaning that if you bought them, a lot of things have to go right. And we elected a president that's trying to enact secular change. I think that secular change is needed, but that is its own width of our own

set of risks with it too. So, to dial back, 4 or 5 or 6. Now, that doesn't mean that there's nothing that you could do to get more than 6%. Sure, maybe stock picking comes back or other themes could come into play, or some rotations into other markets, like European stocks. One thing European stocks have going for them is they've got very, very cheap valuations. They don't need a lot to go right in order for them to go up. Where, when you have high valuations, like equities in the US, they need a lot to go right for them to go up. That might be another play that people could do if they want more than 6% but if you're saying, look, I just want to buy a bond fund, and I want to buy a stock fund, and I want them to go up in a blended fashion with the stock market being up 20%, like 10%, 12% or so, I don't think that we're in that kind of environment anymore.

Erik: Jim, I agree with you that we're probably not in that kind of environment, but I also predict that a lot of people who are paid, frankly, to know better, are going to respond to that by saying, no, no, 6% is not enough. I better employ some leverage. Now you're going to employ some leverage and make it worse. It seems to me like we're headed towards some bad behavior if an entire generation of professional traders who's used to what, frankly, have been some pretty easy times for the last two years, are suddenly facing 6% average yields. I think they're going to misbehave. What do you think?

Jim: I think they already are misbehaving. I mean, if you look at the markets, if one of the things I would argue that's the least understood thing that's happened in the structure of the equity market in the last four or five years, has been the dominance of the retail trader. The retail trader now dominates the movement in the equity market. And most people will, when I say that, I'll get somebody to tweet at me and say, well, look at this. These numbers say that retail traders are very small percentage of the equity market. Yes, individual stocks, they don't play individual stocks. They actually, they play seven individual stocks, demands the MagSeven, and then they play big time in the options market and in the ETF market, and actually in the options markets, usually options on ETFs like SPY and QQQ, and they're buying, and their patterns have been dominating the market. So, if you want to know who is the 800-pound gorilla in this equity market, it is retail. They've got their accounts with zero commissions. You've seen the explosion of levered ETFs. Zero days to expiration, options trading, and a lot of that. And I'll give you one example, the day before we're recording was the Monday after Moody's downgraded the US to AA+. Market sold off hard in the morning, and it came back. And it finished slightly up on the day, like less than about a 10th of a percent, but it recovered from almost a one and a half percent drop. According to JP Morgan, in the first four hours of trading on that day, yesterday, from the day we're recording, Monday, the 19th of May, 4.5 billion dollars of retail money flowed into the stock market in four hours. And so basically, it's hundreds of thousands of people that are logging on to their phones, under their accounts, and pushing 'buy that call,' 'buy that levered ETF,' 'buy, buy, buy,' as Kramer would famously say, and they just powered the market higher. Now, what I'm not saying is that those investors are right and that they're going to make money at the end of the day. They may not, they might, they might not, but they are the push in the market. And if the push in the market is coming from leverage, levered ETFs, zero DTA options and the like, usually that winds up ending badly somewhere along the way, and that's going to be the real fear that we're going to have to look

for. So, the structure of the market has changed. If you really want to listen to somebody talking about liquidity and who's the big player in the market, it's not what are the hedge funds doing or what are the institutional investors doing in equities, it's what's retail doing in equities, and how much are they? Are they playing in the equity market? And they're big, and they're very big, and they're now the dominant player.

Erik: And is that a result of retail just getting more popular, stock trading has become more popular? Or is it more a matter that we're seeing flows that are reflected as retail flows, when, in reality, it might be somebody else doing that trading?

Jim: No, I think it's gotten more popular. And I think it's gotten more popular for a couple of reasons. You know, fill in the blank, biggest hedge fund you've ever heard of, Bridgewater, that's the largest in the world, and they got equity managers over there. What does the equity manager know that the regular retail investor doesn't know? Pretty much nothing. Everything's on the internet. Everything happens in real time. I mean, he might have more resources at Bridgewater in order to get that market PC news in front of him faster. But you as a retail investor, get the same access to it at the same time. What about his cost of doing trading? You've got zero commissions, too. What about complicated strategies that that manager at Bridgewater could do? You've got all kind of ETFs, you want to buy equal weighted S&P, it's RSP. He had to, a couple of years ago, had to engage in a strategy of buying all 500 stocks in certain amounts. Now, you can do it for zero commission by buying one ETF and there's 1000s of them. So, the retail investor is pretty much on the same playing field as that professional manager is. What the professional manager would hopefully tell you is he's got the experience and the knowledge and the know-how, in order to do a better job. But no longer does he have resources that you don't have. You've got those same resources. That's why retail has jumped into this game full time. I mean, like I said, find me a strategy in the equity market that one would like to do that you can't just give me a three-letter ticker and say, just buy that. It does that strategy. There. You've done it. And so that's why I think that retail is, especially among the younger generations, of taking it onto themselves in order to start to play in the market. This is not just find a smart person and hand them your money. That's what, Erik, you and I are old enough to remember that go-go eras of the 80s and 90s, when we used to just everybody would hand their money to Peter Lynch or hand their money to any one of the other actively managed, open ended mutual funds, because that was the way that you would invest. You wouldn't try and do it on your own. You didn't have the cost basis or the knowledge basis or the resources that they had, so you'd give it to a professional manager. But in equities, that's no longer the case. Now, the last thing I'll say is, maybe when you drift away from equities, you get into international bonds or even fixed income, even US bonds or commodities or foreign currencies. That might not be the case there, that you still might want to say that the professional manager has a leg up in all the non-US equity stuff. And I think that's true, but in equities, they don't. And that's why I think you're seeing this explosion of kind of do-it-yourselfers in the fig, in the equity market, and we've given them pretty much every tool to do it themselves.

Erik: Jim, final question, we can't finish this interview without talking about the Moody's downgrade. I see a lot of people making excuses in professional finance for why it's irrelevant

and unimportant that the United States of America just lost its AAA rating. I don't think it's unimportant. What do you think?

Jim: I agree and disagree. Let me start with the disagree part. The US lost its AAA rating almost two years ago. There's three major credit rating agencies, S&P, Fitch and Moody's. What is the rating of any particular country, what is the preponderance of them? So, in 2011, S&P downgraded the US to AA+, and Moody's and Fitch were AAA. So, we were what we refer to as split rated AAA. We were still a AAA rated country. In August of 2023, Fitch downgraded the US AA+. At that point, we became split rated AA+. So, what Moody's did in the few days before we were recording was, they just got aligned with what is the credit rating of the United States. So we already were double A plus, and now they've joined Fitch and S&P, so mechanically, nothing changed from that downgrade. Now that I said that, the other side of the equation is, what about the message? What about the rationale that Moody's had, that they looked at the 'big, beautiful bill,' they looked at the amount of spending that we're going to do, they looked at the inability of Congress to rein in debt or deficits, and that's why they reined us in. That's why they downgraded us. And that is an important message that we could argue that maybe we already were AA+ for two years. Fine. And that that is not going to lead to a forced liquidation anywhere by anybody, because they can only own AAA securities, that already happened two years ago. Fine. But to ignore that message that they had, that would be dangerous. I think that that message that they had was very important.

Erik: Well, Jim, I can't thank you enough for another terrific interview, but before I let you go, please tell us a little bit more about what you do at Bianco Research. What services are on offer for institutional investors and where people can find out more about your work.

Jim Bianco 45:05

So, two things. I run two businesses. [Biancoresearch.com](https://biancoresearch.com) is our research business. We still have a business model where we cater to institutional investors, but you could request a free trial. And to augment that, I'm very active on social media. You can find me [@biancoresearch](https://twitter.com/biancoresearch) on Twitter, X; [@BiancoResearch on YouTube](https://www.youtube.com/channel/UCBiancoResearch), we do have a YouTube channel. And you can also find me on LinkedIn under my name Jim Bianco. The second business we have, which is more oriented towards retail investors, is we do run an actively managed ETF. It's with our partner with Wisdom Tree. It's the Wisdom Tree Bianco Fund. Its ticker symbol is WTBN. You can find out more about that by looking it up under its ticker, WTBN. Or, you could look at [Bianco Advisors](https://www.biancoadvisors.com), which is the website dedicated to that fund and the index that we manage. Technically, we manage an actively managed fixed income index, and WTBN tracks our index. Think the S&P committee manages the 500 and SPY tracks the index. We're set up similar to that. So, we have an ETF for the fixed income market, the 5 and the 456, and we also have a research business as well.

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