



# MACRO Voices

with hosts Erik Townsend and Patrick Ceresna

## Lyn Alden: Run It Hot!

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**Erik:** Joining me now is [Lyn Alden Investment Strategy](#) founder, Lyn Alden. It's probably no surprise there, given the name of the company. Lyn, it's great to get you back on the show. I know you've been saying lately on X that something you've said before on this program, which is fiscal is more important than monetary policy right now. So, let's start there. Why is fiscal more important? And from there, we'll dive into 'big, beautiful bill' and all the rest.

**Lyn:** Yeah, so thanks for having me back on, and I would caveat that fiscal is more important than monetary policy, currently. There are other eras in macro history. We're in monetary dominance, and monetary policy is kind of the forefront. But in this environment, for years now, I've been arguing that fiscal policy is more important, and there's a couple of main reasons for that. One is that with the existing stock of debt outstanding, as well as the structurally large fiscal deficits, which are partially tied to the existing stock outstanding due to interest expense, that is just a generally more impactful thing for the economy than 50 basis points, or even 100 basis points changes in Fed monetary policy. In addition, it shapes the nature of how monetary policy even impacts me and impacts financial markets. Because if you look over the past four plus decades, really, before we entered fiscal dominance, the main tool that central banks rely on, interest rates, is based on the premise, more or less, that their industry policy will affect the rate of money creation. So, in an era where most money creation is happening from bank lending toggling, higher or lower interest rates can encourage more borrowing or less borrowing. But when the federal government is doing more borrowing than the whole private sector combined—which is currently the case and is an aspect of fiscal dominance—the problem is that they're fairly interest rate insensitive. Basically, the Fed's policies are not really going to adjust what happens to the deficit too much, other than ironically, higher rates can increase the deficit and actually spill more money out into the private sector. And so, that's just a challenge that they find themselves in, where there's really kind of no good answers if you're trying to run a central bank when an economy has over 100% debt to GDP and structurally large deficits. And there, I think there's going to be, continue to be, basically things happening that are different than how most market participants have been kind of trained to expect over the past several decades. And I think we're going to be in this environment for quite a while.

**Erik:** Well, if what this is about to you, Lyn, is hitting market participants with things that are inconsistent with what they've seen for several decades, my money is on President Trump and Secretary Bessent to deliver that in spades. So, let's dive into the President's 'big, beautiful bill,' what could go wrong here?

**Lyn:** So, for me, it's less about what could go wrong and more about what is continuing, what is already happening. You know, a lot of the analysis that you see out there compares the 'big, beautiful bill' to what the baseline is. So, it talks about how many trillions are going to be added to the cumulative deficit over, I'd say, a 10-year period, whereas Scott Bessent has come out and said, okay, sure, it might add to the nominal debt load, but his view is it would increase GDP, and therefore not necessarily increase debt to GDP. Those arguments aside, the baseline that many people had was that they thought this administration would reduce fiscal deficit. So even if you just maintain existing deficits or thereabouts, that kind of changes a lot of people's forecasts. I do think that the market has been fairly good at seeing through some of the narratives, but there are a lot of market participants that were somewhat offside by this, and it's been kind of coming out over months now. But basically, instead of fiscal deficits being tied to just one administration, the emphasis that I've been putting on for a while is that a lot of this is structural. It's tied to the fact that interest rates are no longer structurally going down like they did for 40 years. It's tied to the fact that the baby boomer generation is entering their retirement years, and increasingly large numbers, so a very large generation entering more into their drawdown and spending phase, which blows out Social Security and Medicare. It's tied to the structural military industrial complex and defense spending. For a while we had falling defense spending as a share of GDP, but it's kind of flattening out now, potentially heading back up. And in Europe, it's heading back up and other policies like that. And a lot of that is carried from one administration to another. And so, a lot of that is very hard to untie. A lot of that is very hard to reverse, especially when debt to GDP is already as high as it is now, at over 100% to GDP, where the interest expense portion of the federal government really matters. And so, I think the main takeaway that investors are getting is that when we look out multiple years, there's really no, like a very low probability scenario where deficits will be meaningfully reduced in any sort of investable time horizon. And so, that kind of means that portfolios have to be geared toward more of a run-it-hot environment. They have to kind of, invest with persistent deficits in mind, because all else being equal, deficits are a somewhat stimulatory force and a somewhat inflationary force that is up against whatever disinflationary forces are more entrenched elsewhere in the economy.

**Erik:** Lyn, I want to talk a little bit about the specific events of the last few days and how you're interpreting them, just so we can compare notes. It seems to me like a lot of people wanted to believe that the Trump 2.0 administration was going to be very much about reducing the federal debt and eliminating deficit spending and so forth. Those are very much values that were promoted as being part of the MAGA movement and so forth. I think Elon Musk has been the mascot, if you will, for teaching the entire country and the entire world, oh no, no, that stuff doesn't apply to the President's own spending. That's only spending that Obama and Biden had started, that stuff we can get rid of. But the money that President Trump wants to spend, he's going to spend, and he's going to spend liberally, and we're going to continue fiscal spending. And it seems to me that this has just taken us, in the last few days, to the point where Elon has lost his shit and said, okay, I'm going to take my marbles and my heavy lift rocket ship and my political clout with me, and I'm going to go start my own party, and we're really and truly going to focus on the spending reduction and the things that we promised that it turned out, Mr. President, you were full of shit about, is that what's happening. And if so, it seems to me like it

has the potential of being a really big disrupter, because I think there's more people that are likely to follow Elon than President Trump is counting on.

**Lyn:** Yeah, so those are the current points of what's happening now. One of the things I emphasize sometimes is that the status quo favors the large deficits, because no action basically means that the deficits continue, and a highly polarized Congress generally makes huge gains on deficit reduction, very difficult to do. And so, even his attempt to focus on the midterms and switch up some of the aspects of Congress to some degree, even to the extent that's somewhat successful, the threshold that they'd have to reach to have enough kind of concentration in there to make it so that they could agree on some really big deficit reduction package, I would place a very low probability on that. And part of the reason for that is, that when you kind of just poll the Americans on what they want, one of the challenges is that this is not really the 2010s anymore. Back in the 2010s, it was kind of the Paul Ryan era of the Republican Party. And so, they had propositions to increase Social Security, privatize Social Security, significantly reduce public health care spending. Whereas, for example, when you look at the 2024 Republican platform, one of their promises right at the top of the document was to not cut Social Security or Medicare and not to raise the retirement age, which is historically more of a Democrat position. And of course, the Democrats believe that, and more and so. And part of why both parties kind of take that view is that on average, older Americans vote at a higher percentage. They also have wealth to support candidates. And right now, anything that touches Social Security or healthcare, or defense, is kind of a third rail of politics. And of course, industry expense is its own beast, and that leaves a pretty small percentage of the pie chart to go after. And then, so, especially with my prior point that the status quo kind of favors the deficits, it requires a lot of concentrated action to try to untangle those. I would still place pretty low probabilities on the idea that's going to be successful, even though that will be a leading narrative from now until through the midterms. And then, depending on what the outcome of the midterms are, that could be another narrative point through that period to see if they get any legislation through.

**Erik:** So, I'm going to posit that this feels to me like we just got a really strong confirmation, a very strong parallel between the Trump presidency and the Reagan presidency. You know, Reagan campaigned also on fiscal prudence and governments wasting money and so forth. But then, once he was actually in office, Reagan was going to spend more than anybody else, even though it's not really what he had campaigned on. As Elon just learned, it seems like we just learned that it's very clear Trump has no intention of being fiscally conservative. He's going to spend as much money as he thinks he needs to, on accomplishing his policy objectives. So now that we've got a clearer signal of that, or at least, I think that's a clearer signal than we had two weeks ago. Do you agree with that? And if so, what does it mean in terms of various different asset classes, different parts of the equity market and so forth? What should we focus on now that we know where this is headed?

**Lyn:** Wager a pretty confident guess that even in the next presidential election without even knowing the candidates, I would posit that it would probably continue through that administration too, which I'm only able to say because of how structural a lot of this is, it takes a rather radical

outcome to make anything but that. And partially what complicates it is that, because the US is so financialized, more so than even many other Western countries, if our stock market just goes like sideways to down for a year or two, that starts to impact tax receipts, because there's a lot of global capital stuffed into our stock market. Our stock market is about 200% of GDP, more or less. We have a lot of wealth concentration. We have a lot of income tied to stock issuance of companies, as well as capital gains in general. So, when you have, even if you make a pretty serious run at austerity, with a lag, that becomes very difficult to maintain in such a financialized economy. So, it really is a pretty difficult Gordian knot to untangle. I wouldn't want to be in the position of having to untangle it either, and that's why I keep emphasizing that almost regardless of outcomes, the deficits are going to continue.

As for asset classes, I think overall continues to make it so that bonds are, while they're tradable, the case for investing in them long term is still not very strong. I think the worst of the bear market is behind us. So, going from near zero rates, and then, you know, 10Y increasing as much as it has, as well as longer durations, I think the worst of that is behind us. I don't think we're going to have another kind of 4-5 year bear market of that level of nominal loss, but I do think that it's going to continue to be an asset class that does not really appreciate an investor's purchasing power over time. I continue to favor equities relative to bonds. Although, I increasingly like international equities as well as equities that are in under-owned sectors, I continue to like precious metals as a slice in a portfolio. I continue to like Bitcoin as well. And in general, I keep investing toward kind of a run-it-hot, type of environment.

**Erik:** When you say run-it-hot, do you mean high beta names running hot compared to inflation, compared to the economy, compared to what?

**Lyn:** So, running hot in this context generally means that that nominal GDP is likely to surprise somewhat to the upside. Now, there's different ways to measure GDP, and so, we'll see how things like AI and other kind of impacts happen. But in general, when you have these pretty large deficits, even slowdowns in the economy—which we're kind of experiencing now—they tend to take on a different fort. It's kind of like how in an emerging market, recessions tend to be a little bit more stagflationary, than they are outright disinflationary. I think there's a tendency for that to happen in developed countries when they're in a period of fiscal dominance, like, if you're already running deficits that are at the scale you normally run during a recession before the recession even starts, you're kind of pre stimulating, or at least you're stimulating those that are on the right sides of the deficits. One of the other outcomes is that it creates a very K-shaped economy, because at the current time, when you have loose fiscal policy and tight monetary policy, it means that there are certain demographic groups or certain industries that are on the receiving side of a lot of those deficits. And then there are other industries that are on the kind of the bad side of the tight monetary policy, namely commercial real estate, residential real estate, and on average, lower income or younger demographics. And so, you generally want to have a portfolio that's aligned with these pressures pretty significantly and kind of being careful of overvalued defensive plays, right? So, when you look at, say, Costco trading 50 times earnings, or other kind of like mega cap blue chip stocks that investors kind of plow into, not necessarily because of euphoria, but because they're kind of scared of everything

else, so they use them almost like bonds. I would be somewhat cautious of anything that looks really overvalued in that sense. And I actually think that taking on some of the more cyclical risk is not a bad idea, as long as it's well priced, which a lot of it is.

**Erik:** Lyn, let's talk about the financial sector, one of your specialties. What's going on there?

**Lyn:** Well, so, there's increasing kind of news around how that's going to look in the coming year or so. You know, during Secretary Yellen's running of the Treasury, she had issued extra T bills in order to fund the deficit, which was kind of an unusual policy. And at the time, now Secretary Bessent, he made the case that the government should have termed out its debt longer, and that he would do that under his tenure. And one of his focuses was on getting the 10Y lower. In addition, if you look at Stephen Miran's paper on trade—so he's Trump's Chair of Council of Economic Advisors—he published a paper back in November 2024 that kind of laid out the Steelman case for how they could approach tariffs, or how they could approach trying to reduce the trade deficit. Generally speaking, they expected a stronger dollar during their tariff negotiations. And so, the fact that the 10Y has gone down the way that Bessent expected, and the dollar has, if anything, lost value rather than gained value. It's already the case a lot of these kind of factors not really moving in the direction that they had hoped. And so, we've seen also, some extent, the Treasury Secretary has kind of adopted some of Yellen views, although he wouldn't phrase it that way, which is to say that they're arguing that the Fed is too tight right now, too high interest rates, and so they intend to basically keep issuing excess T bills and not try to extend bond duration. In addition, when we look forward to 2026, they've pretty much all but said they're going to try to get a dove installed as the Fed chair, which on average, it would be more accommodative to these, kind of run-it-hot type of policies, rather than trying to slow it down. And so, I think a lot of that is actually pretty beneficial to the financial sector. And that's in addition to, the Fed has proposed reducing supplementary leverage ratios, which can give banks either more capacity to buy treasuries, potentially, or can give them more flexibility to return capital to shareholders. Because they would need, especially for the big banks, they would need less capital relative to their assets overall. And so, actually, one of the cyclical sectors that I seem to have a somewhat contrarian opinion on is that I'm somewhat bullish with caveats on the financial sector. When I look at banks, for example, some of the mid-size or mid to large size banks, like some of the regionals and some of the super regionals, I actually think they're really attractively priced at the current time. I generally view them as having not that much risk in a run-it-hot environment, although, I would, of course, there's certain banks that can have pockets of risk and you want to diversify. And I think most attempts at financial repression are going to be passed more on to the depositors than the banks themselves. There are certain signs I would look for that might go against that thesis. But unless I see those signs happening, which I don't really, I actually continue to view that the financial sectors are pretty interesting place to have some capital.

**Erik:** Tell me your take on Scott Bessent, what he's up to, the things that he's saying, and whether you believe that he's meaning what he says, or if it's just marketing and propaganda. Because honestly, I don't really understand what he's trying to accomplish, policy wise. The way it comes across to me is, we really need to get the 10Y yield down, in order to help the

economy. So, we're going to do a bunch of things that cause the dollar to go down a whole lot, which is going to result in foreigners not wanting to invest their capital and not wanting to buy treasuries. But somehow, they're not buying the treasuries is going to push the price up and bring the yield down. Is that how it works? I mean, I don't get it. Is this just propaganda, and he doesn't really believe this stuff? Or am I missing the connection for how weakening the dollar is going to somehow get the 10Y treasury yield down? What am I missing?

**Lyn:** Well, I think it's always the case that when people kind of enter politics, their speech gets a lot less clear than it was, either before or after.

**Erik:** Well, and I guess that's my point, is he's no dummy. It's not like he's some stupid politician who doesn't get it and doesn't know what he's talking about. He's a smart guy who understands macro really well. So, what's he up to?

**Lyn:** You know, my read, especially when you read that Stephen Miran paper, I think Bessent is in that camp, more or less, is basically the view that they expected a little bit more of a stronger negotiating position in their tariffs. The market, I think, called their bluff quicker than they would have hoped, which put them into a more challenging position. And then there's other aspects that I think that, from the beginning, were somewhat incongruous. And so, for example, Bessnet had that plan where they want to get the 10Y lower, they want to narrow the deficits, they want to increase US domestic oil production. And because, the general view, if I understand his approach correctly, is that they understood that there would be some inflationary pressures from tariffs, but they wanted to make sure that, wherever possible, those were offset. So, an initial period of a stronger dollar would help offset some of those, and then would give them ammo for later negotiation, like a Mar-a-Lago accord on dollar devaluation. In addition, making sure energy flows pretty abundantly, is a good way to keep the edge off of CPI. Generally speaking, the worst inflation spikes tend to come with higher energy prices. So, if you can keep the supply side well-functioning, you know, takes the tail risk off some of those inflationary pressures. And I think some of that made sense. I think one of the challenging things is that the US energy sector, and there are others that cover this in more detail than me, but the US shale industry has, now it has very high, very fast decline rates there. The marginal cost for wanting to drill a new well is up there. And so, by trying to get oil prices as low as possible, one of the challenges is that you kind of roll over US oil production. So, I don't think they're going to hit their target of 3 million more barrels, for example. Luckily, they do have energy prices low, which takes the edge off inflation, but it kind of points to a more negative picture in the years ahead. And in general, I think the plan was too fragile from the start. I have been on record saying that I do think that trying to tackle the trade deficit is a big deal. I do think that's a genuine mandate from the American people, and I do think that it's gotten to the point where it can't really be ignored the way it was for many decades. But then, it's just another question of whether the set of tactics makes sense, and when you have, any administration has multiple voices in it, and so there's always multiple camps. And you know, I wouldn't envy his position to try to put those pieces together and to speak to the public about what the strategy is, because the strategy seems to change frequently, and just has flaws or challenges in it from the beginning,

**Erik:** Lyn, we have to talk about energy next, because, as you just explained, the connection to inflation is so important. I think that if they could somehow manage to keep energy prices down, or even get them lower than they are now, by maybe pulling in a few favors, maybe Trump has asked MBS to increase production, as seems to already be happening. Maybe if they could get energy prices down, we're not going to have a runaway inflation problem. But I just don't see how we could possibly pursue these other policies and not get to runaway inflation if energy starts to get away from us. And it seems to me like that's the risk. Would you agree that's where the risk area is? And if so, what's your take on how big of a risk and what could happen?

**Lyn:** So, I do agree that that's the biggest risk. And I think that it makes sense that multiple people in the administration are focusing on that risk, are aware of that risk. Now, whether their policies are good at containing that risk, I think are a somewhat different matter. I think that in the near term, they're doing a good job of containing that risk. But then, if they contain it at the expense of making new shale whales somewhat unprofitable, and therefore reducing US production or flatlining US production, then that could come back to bite them later. So, I think that's kind of a, still a very unclear situation. It's also, right now, they're critical of the Fed for maintaining high interest rates because they've argued that that inflation levels are lower. You know, one of the challenges, the part where I would agree with them, is that in a fiscally dominant environment, it's somewhat less clear that high interest rates are the right approach to slowing down inflation. Because as I mentioned before, interest rate policy is mostly geared around slowing or accelerating bank lending. But throughout this entire cycle, bank lending was never the problem. We didn't go through high inflation because there was a lot of bank lending, which was the case in the 70s. In this environment, instead, was the very large monetized fiscal deficits, as well as some other factors, like, the brief energy shortages, things like that we had a couple years ago. And so, the Fed's policy of trying to keep interest rates pretty high and really kind of slow down the housing sector, slow down all that, is not really tackling the root cause itself, which is the fiscal deficits, which are outside of their control. But the one thing that the really hawkish Fed policy is doing is that it is providing somewhat of a floor under the dollar. And therefore, is somewhat capping energy prices, is somewhat putting pressure on dollar in debt in emerging markets, which you know, prevents them from easing too much, slows down their energy consumption, and therefore kind of reduces the demand side. And so, it's quite possible that if the administration puts someone in there that's more dovish, they could get what they want, but that could come with a side of higher energy prices if they have lower short-term interest rates. If they have a weaker dollar relative to some of these other currencies, especially emerging market currencies, it does give kind of a window for resurgence in energy demand at the same time as, at that point, you would have had maybe a year of US shale oil gradually rolling over, and so a tighter supply picture as well. So, I don't think we're at kind of a near term risk of a spike in energy prices unless, of course, we have some sort of further kinetic Middle East action. But when you do look at a year or two years, I could see both increase in demand, as well as kind of a flat lining of available supply.

**Erik:** Lyn, let's relate what you've just described back to something that I think you and I talked about years ago, which is where we are in the big picture of the energy industry. We started out with conventional oil, really getting to a point where a lot of people were concerned in the early 2000s that we weren't running out, but we were getting to the point where the cost of extraction was potentially about to go parabolic because of insufficient supply. And then came shale oil. And what everybody correctly understood, or at least the experts who really understood it said at the time, as they said, look, shale wells, as you just described, have a much steeper depletion profile. They don't last for 50 years, like the old giant oil fields did, they either they get fracked, that releases some oil in the tight oil play. After a couple of years, they need to get fracked again, or else the rate of oil extraction goes down dramatically. What this has meant is, everybody's known the whole time that this whole shale revolution ultimately would lead to an outcome where, eventually, you get to the point where the western United States is drilled up like Swiss cheese, and although there's still plenty of oil in there, it's no longer economic to extract it at a price that the market can support, and we've run out again. It seems to me like that event of shale playing out to the point where that's not going to solve our energy problem anymore. And that really is the only thing that's been keeping the world going, I would say for the last 15 years, seems like that moment is coming. Am I right about that? And if so, what's going to happen?

**Lyn:** So yeah, my research, as well as kind of the specialists that I track, I do think there's a case we made that shale oil was in the process, in the US, of topping. It doesn't mean that we've necessarily hit like the high-water mark, but I do certainly think that rate of change terms, we're kind of reaching our available limit, either now or in the coming years, especially at current energy prices. And that will change, I think, the overall balance. I mean, the whole 2010s decade was characterized by the disruption of shale oil coming online. Many of the drillers at that time were unprofitable, but they drilled anyway because they had a lot of external capital. Nowadays, especially after the really poor performance over the second half of the 2010s decade, culminating in the, you know, a lot of the bankruptcies or the deep bear market of 2020, a lot of them now run a lot more disciplined strategy. So, they have a lot less external capital from investors, so they try to drill out of their free cash flows, and that competes with dividends, buybacks, paying off debt. So, every time they get the marginal dollar, they have to decide, is it risk? Is it worth the risk of putting this back into the ground and kind of having a profitable well over the next few years? Or should we just return this to shareholders and strengthen our balance sheet and prepare for maybe another environment where reinvesting it might be the right strategy? And so, with that in mind, combined with the depletion rates, I think the US is kind of no longer the marginal source of new supply. I don't think it's hitting the market right now, because, the overall global demand is still on the weaker side at the moment. In addition, there still is some flexibility from the Middle East. And if you look farther out, I mean, there still are known sources, such as Venezuela, they have, obviously, the political instabilities. And I do think that another big cycle of deep water would probably result in quite a bit, but that would require higher prices and another investment cycle. So, I'm kind of slow to say that this is the top of the whole thing. But instead, it's more like saying for this particular energy cycle. I do think we're running out of marginal supplies coming online, and that it would require another period of higher prices and another prolonged investment cycle to give us the next leg up.

**Erik:** I'd like to run a hypothesis past you that I haven't talked about publicly yet, but you're the perfect person to run this past and get your take on it. I see a big energy squeeze coming in the second half of this decade, in the second half of the 2020s. And the reason I say that is, I think we're getting to the point, yeah, as you say, who knows whether shale is topping this year or next year, or the year after next or whatever. but we're in a topping process on US shale that that has to eventually get us to the point where we're not going to have any more of that expansion and oil from deep water, offshore and so forth, is going to get more and more expensive, and people are going to realize, okay, nuclear is where we're going. But I think what's happening is, people are getting complacent, because they're either buying existing capacity or they're getting restart contracts to restart nuclear plants. That stuff is already used up, all the deals to restart nuclear plants that have been shuttered, that can be restarted. Somebody's already on top of that. They're already cutting their deal. Big tech is going to own that energy, but I predict there's going to be demand for more energy in the second half of the 2020s. The question is going to be, where does it come from? And it's going to be, hurry up and wait. We know we can make more nuclear energy, but it's really expensive and it takes a good solid decade. I think that's what we're going to be up against, and there's going to be no solution to it. What do you think, and what would the knock-on effects be?

**Lyn:** Well, I think an early warning sign of that, or like an example that happening in microcosm is Egypt, which some listeners might know that I live part of each year there, they've got that exact situation almost because they produce some natural gas. They used to be a net exporter. Now, they also import quite a bit of natural gas as the population has grown over time and as their production has some challenges. And so, especially in the summer months, when everyone's running their air conditioning in the desert of Egypt, they often have energy shortages. There's outright rolling blackouts throughout the summer, multiple summers in a row, and they've been trying to address this by building a very large nuclear facility on the Mediterranean coast. I believe Russia helped finance it and it's Russian equipment, or at least part of it. And the problem is that, as you point out, building a new nuclear facility takes quite a while, at least with currently deployed technology that tends to be used. And so, ideally, they should have started that way earlier. You know, the administration there has been criticized for kind of like building their new capital out, which is kind of a ghost city, or at least partially, whereas they should have started the nuclear facility earlier. So, there's an end in sight for when their energy, or at least part of their energy issues, might get addressed, but it is that sequencing problem in practice, and it really does impact people's lives. It impacts their business productivity. It impacts their inflation there. so the combination of high money supply growth, but then also they do have these energy shortages, o they have the exact kind of inflationary problems you'd expect. And I think there's certainly a case we made that, perhaps the late 2020s like you say, that broader portions of the world could be finding themselves in a situation where they do have available tools that they can get out of energy shortages, let it both nuclear facilities coming online, as well as some potential like deep water oil and gas sources. But those have longer investment time cycles. We'll probably be having that conversation at the time, saying that they should have started this earlier, that they should have had more foresight to what this period was going to look like, or at least that's how I'm doing it now. So, I agree with

you, it's hard to fully judge timing, because there's always so many moving parts that can happen between now and then. Like, if you would have asked me, and I think you probably did ask me a few years ago, what would energy prices be here in 2025? I would have guessed higher than the current time. But nonetheless, as we kind of look out more and more years after we get past the current supply period, as we get weaker shale production, I do think we are setting up probably later this decade. I would be curious to hear like, what your time and considerations are for why you pick the late 2020s in particular. What is the earliest you think it could happen? What is the latest you think it could happen? How are you going about assessing that timeframe?

**Erik:** That's my challenge, actually, and that's why I ask you these questions. I don't know how to assess when the wind down of US shale, when the shale miracle starts to peter out, and when that really has a... when it does, which it already is, you do know what happens. It means that OPEC has to start increasing production up and going back closer to their actual spare capacity, which is really a secret. We don't know exactly what their real spare capacity is, but we're closer to finding out the environment where you overrun OPEC's spare capacity. In other words, the world's consumption changes in a way, it's like, okay, tell OPEC to turn the screws up another million. They're like, oh, yeah. We've been fibbing the whole time. We don't actually have that spare capacity. We lied about that. We can't turn it up. We can't make any more. That's where you get an explosion in prices, when the world figures out that the emperor had no clothes and we didn't really have the spare capacity that we thought we had. And what I see, frankly, is just, I know the tech bros are not stupid. These guys are, in many cases, signing 20-year contracts where they're paying up and paying double the current going price of electricity in order to lock in a contract for 20 years. That's either just profound, abject incompetence, or they see something coming that's really big. Got to be one or the other, right?

**Lyn:** Yeah. Generally speaking, when electricity is a fairly low-cost input to what you're trying to do, in their case, it's often AI data centers.

**Erik:** And they're saying, we'll be happy to pay double if we can just lock up some supply, because we're afraid that we might not be able to get it otherwise.

**Lyn:** Exactly. Because their biggest costs are the chips themselves, as well as all the other kind of aspects of running that business. Whereas it's far more damaging for them if they get a shortage than if they find out that they kind of moderately overpaid during a period of time. They say, well, they're able to sleep with that error. Whereas, if they just literally, their highly expensive multibillion-dollar data centers just off because they can't get power, it would be more catastrophic. So, I fully get, or fully agree with them on the risk-reward analysis that they're doing to basically not find themselves in a situation, like basically the entire country of Egypt finds itself in. And so, I do think that that's a real risk. The kind of the milestones that I would look for, for the potential next wave of energy price changes, in addition to, of course, you know, kinetic actions that are, they're really hard to predict in advance. But basically, when we look at 2026, we're probably going to have a more dovish Fed chair, and we're probably also going to get the end of Fed quantitative tightening, because they are getting close to what they would

define as ample reserves in the banking system this past quarter. At quarter end, you generally have window dressing where financial institutions try to make sure that their liquidity looks good for quarterly reports. And someone did tap the Fed standing repo facility for liquidity, and just overall, there were strains of liquidity, stress on the system. So, as we kind of extrapolate that a few more quarters, I do expect that the Fed will probably be ending quantitative tightening at the same time as they're potentially lowering rates. And so, I think the next step is more dovish policy. Potentially, we get kind of, some degree of probably counter trend rally in the dollar, and then maybe the next leg lower in the dollar, if I were to guess, and that's potentially a catalyst for the next bull market in energy. So that's where you get potentially higher prices, you know, kind of shale not really able to meet that fully. We can run into OPEC spare capacity limits, which, as you said, are hard to know in advance. But then as that becomes more sustained, which I think it will in a fiscally dominant run-it-hot environment, that's how you start to get potentially the next leg up in energy prices, and one that is more persistent than what we saw in 2022, which is more geopolitical. So, I think we got a taste of that back then. But there were ways around that, it was not a more sustained issue. But I do think that if we do encounter the scenario later this decade, it would be more sustained, at least until more supply comes online.

**Erik:** Lyn, I agree with you on that. And I would further say that the inflation connection is really important there, because the connection to inflation is going to come from energy, that's where we're going to get into the vicious cycle that eventually comes back and bites the financial sector. But it's also true that the kind of energy inflation that we're talking about, that's going to be positive for financial sector stocks. Your run-it-hot strategy, it's going to benefit from rising energy prices in the beginning, until the inflation comes back and becomes problematic. So, I would think that that plays very nicely into your strategy.

**Lyn:** Yeah, and I even think that when the inflation comes back, I don't think we'll get the same ratio of hawkishness that we got this time. And so, we have to see what happens with what the administration deals with, either this one or wherever the next administration is. But basically, I expect that that banks will be in a position to pass the financial oppression on to their depositors, and that, even though 2022 wasn't bad for them, for the vast majority of them, it was not any sort of kill shot they were able to get through it. And current valuations, I find a decent number of them attractive. Interestingly, the ends of the financial sector I find a little bit less compelling. So, for example, the bluest of blue chips, like JP Morgan, are somewhat expensive at the current time, and investors are also paying up to some extent, for their credit card companies, which is interesting. Neither of those, at least at current prices, are particularly compelling to me. Whereas I find kind of the mid, the boring middle to be interesting, the regionals, the super regionals, those are the ones that I think basically have the most potential, in terms of their starting valuation compared to what they could look like in a couple of years. And also, I think the energy sector is interesting because I've been preferring to play it through the equities rather than through energy prices directly. Because a lot of them, in contrast to the 2010s, a lot of them are very profitable. A lot of them have good balance sheets, and they've held up pretty well in this kind of pretty low energy price environment, because at the current time, they're profitable, and they're spinning off dividends. They're, in some cases, they're buying back shares. And so, I view them as basically positive carry plays on this energy

dynamic. So, rather than trying to time when this energy shortage comes or when the next bull market in energy prices comes, I like having a position in them, because whenever that does come, it will, it can offset some of the negative impact that happens elsewhere in their portfolio, when margins are pressured, when potentially interest rates develop more hawkish. Again, a lot of other assets could be suffering. And much like 2022, where owning energy was like a key defense for that stagflationary year, I certainly think we could have another round of that, and perhaps a more sustained one.

**Erik:** Lyn, before we close, I want to touch on another of your favorites asset classes, which is Bitcoin. I have to tell you, my view on this is really evolving, and it's funny, a lot of people think I got it wrong. I don't think I got anything wrong when I said that Bitcoin is something that poses a serious threat to governments, and governments would be incompetent and stupid if they didn't try to outlaw it, in order to prevent it from posing a very serious threat to government's monopoly over the issuance of fiat currency, of money. I was right about that Bitcoin does pose a risk to governments over their monopoly on the issuance of money. But what I never saw coming is, at least in the Trump administration, they do seem to have an understanding of that, and they're cheering for it. They're actually saying, yes, getting the government out of the monopoly over money issuance and giving it back to the people is the policy that we want to support as a presidential administration. I never saw that coming. Seems to me like it is potentially changing the game, and I'm seeing all around the world more and more governments acknowledging Bitcoin as either a legitimate form of payment, for payment of taxes, or for payment of this or payment of that. Where do you think this is all headed? And do we eventually get to the point where the government does try to annex Bitcoin and say, wait a minute, we didn't realize what we were getting ourselves into with giving up this control. Maybe it was a mistake to let Bitcoin take over as much as we did.

**Lyn:** Yeah. So, I think the short answer is that, at the current time, money speaks and it depends on the jurisdiction in question. But for example, the United States, we have the benefit of a somewhat independent court system, and so policymakers have trouble just kind of enacting whatever policy they want. People often point to the FDR era, where they outright banned gold, which is pretty remarkable, but people often fail to mention that that was kind of the most consolidated power that ever existed in the country, at least outside of the Civil War. Which is to say that, when FDR did that, he had a backdrop of like 70% support in Congress for his party. So, he had a super majority. He could stack the Supreme Court. You know, he basically, kind of had all the levers of power. And so, they were able to do rather draconian things related to gold and other things that touch on human rights, for example. Whereas in a more polarized environment, it's harder for a government the structure like this, to do that, and they, you know, we benefit from independent courts. And so, for example, the SEC had to get sued in order for spot Bitcoin ETFs to hit the market. Basically, their arguments were kind of found in court not to be particularly relevant for what they were trying to argue. And so, a lot of that just hit the market. And then, in addition, we've seen that, especially in this past campaign cycle, I mean, if you look at like the largest crypto super PAC, the numbers they raised were just enormous. And so, there was a lot of money to be gained for politicians, from being neutral to pro Bitcoin and crypto, versus being negative. There was very little money on the table for those

that were explicitly anti it. So, when all these politicians are optimizing for 2-year or 4-year terms, the incentives are kind of stacked to one side of the deck.

Now, every jurisdiction is different, like, China's got a different political model than the United States as a fairly distinct example. But there's this kind of international game theory as well, where if some companies get more, if some countries get more restrictive, other countries come in and say, well, we're open. You can bring your wealth here, bring your spending here, bring your businesses here, and we'll tax you, but you're we'll treat you like we would any other business, more or less. And so, I think it's passing that game theory hurdle. I think the current eras, it's going to continue to be run by somewhat the corporate strategy of just more and more corporations putting it on their balance sheet in the way that MicroStrategy did last cycle. This time, it's happening to more countries, more jurisdictions. I think that has legs to it for another year or two, most likely. Where I see maybe the next friction point by governments is if we do get that higher energy price period that we talked about, and we do have higher inflation levels because of it, and we do have just ongoing, hard to control fiscal deficits in the United States. And if, say, in this current cycle of corporate Bitcoin accumulation, if one of the bigger ones makes a misstep and then blows up the subsequent bear market, for example, another administration could come in and use that as a scapegoat and kind of put pressure on the Bitcoin space. So, I wouldn't count the battle is truly over. I do think that the incentives are pretty well aligned to deal with government frictions. I mean, there's been cases where, you know, India would try to ban it and then unban it, and different parts of government would have different views on whether it's legal to do that or whether they should do that. And so, most governments are not monoliths, and there's multiple different jurisdictions in the world. So, I think that's all going for the asset, but I don't think it's over. And I think the kind of the next steps are, there's still many jurisdictions that make it taxable, so they reduce its attractiveness as a medium of exchange. There are still many governments, especially in Europe, but also still in the US to some extent and elsewhere, that try to make various privacy attempts illegal. And so, I think those are going to be with us for quite a while, I think there's still going to be issues. So, I think I'm bullish on the price over the next several years, but I don't think we're fully out of the woods, in terms of different jurisdictions pushing back on it. And yeah, the time I'd be more concerned is when we have another wave of inflation.

**Erik:** So, if a client comes to you and says, Lyn, okay, in this category of hedges against things going wrong, It's some combination of Bitcoin and gold, precious metals. But I don't know what the ratio should be. Is it 50/50? Is it half and half? Does it depend? Are they hedging different things? How do you break that down?

**Lyn:** I think, that partially depends on the investors understanding of the assets. I mean, if someone's starting position is zero Bitcoin, my view would be to have some Bitcoin. Younger investors will generally align toward far more Bitcoin. There's also a tendency that if you see you start out 50/50, because Bitcoins perform so well, you end up being very overweight Bitcoin, just kind of the way that it tends to go. So, I don't really try to assign percentages to people, because I give very different, maybe recommendations, to very different starting positions. Another one way to kind of characterize the difference is that, obviously, gold has, it's a bigger, more liquid

market. It's less volatile. It's got the longer track record. Bitcoin, one of the advantages is that it's mobile. I mean, someone can hold Bitcoin, and they can bring it anywhere in the world as a bare asset, which is much harder to do with any sort of a sizable amount of gold. And that's one of those things where, you know, if an American is listening to this, they might think, well, why is that? Why is that important? But in many countries, I mean, there are people that, you know, Lebanon had major inflation. They wanted to leave the country. If they're in Egypt, they want to go somewhere else. If they're in Russia, they wanted to leave. If they're in Ukraine, they wanted to leave. For many places the world, having portable, self-custodial capital is a pretty big deal, and so Bitcoin has the advantage in that front. So, it comes with higher volatility, it comes with, you know, it's 16-year old asset. It's less understood than gold, but it really has that portability to it, as well as just overall kind of finite supply and going through its technological adoption phase. So, the way I often recommend it is, I've said, okay, if you start with a 60/40 portfolio and you say, how can we make this better, especially in a fiscally dominant environment? Well, you can substitute some of the bonds with gold, because you get a somewhat similar volatility profile, but better performance. And you can substitute some of the equities with Bitcoin, because that's, again, that's the more higher volatility side of a portfolio. And so, if we kind of think of, how do you keep a portfolio of similar volatility but make it better? That's generally the angle that I would at least point people to considering.

**Erik:** Well, Lyn, as always, I can't thank you enough for a terrific interview. But before I let you go, please tell us a little bit more about what you do at [Lyn Alden Investment Strategy](#), what your services are, who your clients are, and where people can follow your work.

**Lyn:** Sure. At [lynalden.com](#), I provide both free and low-cost paid research for investors. The target is retail investors in institutions. Generally, we provide institutional type of research, but in plain English to make it more broadly available. And so, people can start by signing up to the free newsletter that comes out every six weeks or so, or they can try the lower cost research service that comes out every two weeks. And then, in addition, people can check out [Broken Money](#), either on Amazon or elsewhere, which talks about the past, present, future money through the lens of technology. And in recent months, crossed over 100,000 sales, which I was pretty happy to see.

**Erik:** And of course, that is your book about digital currency, the only book about digital currency that's much better than my own book about digital currency. And I can assure you that considerably less than 100,000 people read my book. So, you're doing pretty well, congratulations. Patrick Ceresna and I will be back as MacroVoices continues right here, at [macrovoices.com](#).