

## ***Louis-Vincent Gave: Which Megatrend Will Reshape The World?***

**Erik:** Joining me now is [Gavekal](#), co-founder Louis Vincent Gave, Louis, I think everybody in our audience already knew. We're gonna do a countdown from the five best guests. Louis Gave, gotta be in there somewhere in the middle at number three. Lots of pressure on two fantastic interviews that we just followed before that, there was one from you the timeless piece. So you're on the spot, buddy. You gotta outperform that somehow. Where are we gonna start? Equities we're pretty much certain everybody said to, to roll over pretty much anytime now, except they went the opposite way. And it seems like quite a few other markets.

A lot of reflation, gold lots of things up. Copper, not so much. Where's the action here? What should we be thinking about?

**Louis:** Thanks for having me on Eric, and I'm very flattered to to have made the top five. I'm a very flattered to podium that sound like a bronze medal.

That's that's, that's pretty exciting. So thanks thanks a bunch. Yeah, look to your point, the world feels very reflationary right now, right? I think when you look at markets, you find that pick any major market you care to to pick. You'll find that financials are typically outperforming.

Yes, to your point. Precious metals have definitely broken out on the upside, but metals in general have been doing pretty well. I think you find that emerging market debt is massively outperforming developed market debt. You'll find that equities have started to outperform value is no longer sucking wind.

It feels pretty reflationary. And to be honest, I think that reflects a number of economic realities. The first and perhaps most important economic reality is that in all the major economies, policy makers are following very reflationary policies. I think if you start off with the us, which is obviously the most important when Trump came in.

For about six weeks we were promised Doge and tightening a fiscal belt and, slashing of government payrolls, etc. But it seemed to have lasted about as long as as one of my new year resolutions. Four to six weeks and then it goes on into the dustbin, I think when I look at the US today, what you have from policymakers is, a promise to go pedal to the metal. And, Bessent said it himself in his April interview, he said, look, we're gonna grow out of our debt situation and we're gonna put pressure on the FED to give us more money to do the US is following Reflationary policies. China is following massively reflationary policies. Few people realize this, but the budget deficit this year in China will probably be about 10% of GDP, give or

take. For China's never run budget deficits this big, and this is occurring at a time when interest rates in China are at record lows, so in China as well, you have very stimulative policies, and unsurprisingly, Chinese equity markets continue to grind higher. Then, you look at Europe you really have pretty much the same setup except perhaps for France, Britain, where those two countries are trying to do some kind of fiscal consolidation, but it's very small at the margin.

And then in Japan, you obviously the Prime Minister just resigned. And the two leading candidates are both promising easier fiscal policy and more spending. So it's like the two guys the girl and the guy running, it's more and even more anyway, everywhere around the world, policy settings, you remember that spinal tap it's like these go to 11.

It feels like everywhere around the world. The dial is set to 11. And that's only, I think, part of the reflationary picture. Another massive part of the reflationary picture. The one that matters a lot for us in emerging markets, is the US current account deficits. The US current account deficit a year ago was 3.6% of GDP.

It's now 6% of GDP. That's the fastest deterioration in the US current account deficit on record. It means that concretely the US today is sending to the rest of the world \$2 trillion. Every year, \$2 trillion in cash to the rest of the world and the rest of the world takes that money and then, it can decide to reinvest it in the us it can decide to reinvest it at home.

But increasingly, I think what's happening is, on the other side of that US current account deficit, you have countries that increasingly feel that maybe they don't need as many US dollars to trade as they did before. Because most of the growth in trade is actually occurring in emerging markets.

We're now in an environment where. You get lots of excess dollars. Dollars is drifting lower, which is always reflationary for emerging markets. And then finally, I'm sorry for a long-winded answer, but finally, you also have a massive change of policy in China where instead of adding excess capacity onto excess capacity, which is what they did essentially since the semiconductor embargo of 2018, what you and I discussed in our previous interview, what they're now doing is a policy of anti-evolution. It's that's the new buzzword in China. Cracking down on excess competition. And so as essentially you stop lending to. Industry to add excess capacity on top of excess capacity.

I think that's actually pretty reflationary for everybody else. If you're a Japanese automaker, a Korean ship builder, the fact that China might be done adding excess capacity, at least for a year or two, gives you a little more breathing room. And so unsurprisingly, industrials are now outperforming everywhere.

Korea's outperforming, Japan's industrials have been doing fine. I think, yeah the markets. You could say are feeling very reflationary but all that corresponds to an underlying economic reality.

**Erik:** Louis, my mental model for what reflation are all about is reflation usually set up fairly long lasting trends in asset markets and as traders trends obviously are our friends, as long as you get in on the game fairly early.

So when I look at some of these reflationary trends, clearly gold is trending up. It's part of your reflationary hypothesis. Makes perfect sense. Gotta go long gold. Wait a minute. Gold's, more than doubled, almost tripled in the last few years. Is it already at the end or are we just getting started?

How do you tell when you know there's a reflation, it's already run a long way, where's the entry point?

**Louis:** It's the old story, right? If best time to plant a tree was 20 years ago, and, second best time is now. So I think for gold we are in a structural bull market for gold, partly because, the view of a lot of emerging markets of the dollar shifted massively with the Russian invasion of Ukraine and the and the seizure of all the, all of Russia's assets. You and I discussed this many times in the past. So is it time to, to let go of gold? Look I think we're starting a new easing cycle from the Fed.

I think we're in a US dollar bear market. These are usually, tailwinds to gold. They're not headwinds to gold. So I, given that I am a bear on the US dollar, I'm not gonna tell you to go sell your gold. Now, having said this, there's no doubt today that gold is expensive. When you look at gold relative to oil, when you look at gold relative to copper, to silver, to platinum, when you look at gold relative to US wages, when you look at gold relative to US house prices on any historical measure, gold is expensive.

But yes, it has momentum. Yes, the fundamentals are good. Yes, you can play the reflationary environment through gold. I think at this juncture, there's probably better assets to own, to play the global reflationary environment whether copper, whether energy I think these probably have more torque now and more upside potential.

But, to your point, gold is in a bull market and in a bull market, there's two things to do. You either buy it or you stand aside and look at it, but you definitely don't short it. So yeah gold is in this strong bull market. You've got buyers that are essentially price insensitive like global central banks.

You have very little increase in supply because gold miners have been deprived of capital for 20 years. It's, I think it's pretty hard to stand in the way of that bull market.

**Erik:** Louis, let's move on to US equities, both the S&P and also the broader indices. So many really smart people, whether it's Goldman Sachs, Mike Hartnett, lots of really, high profile voices saying, hedge, baby hedge.

We're headed into that difficult time of year. You don't know what could happen in October. Could be a crash. Oh my God. Seems like the market is just loving that wall of worry and climbing right over it. Should we expect this trend to change? Is it long in the tooth?

**Louis:** Look, my, my own business partner Anatole Kaletsky just published a couple pieces on this very idea that yeah, we may be approaching a, a top on, on US equities.

And behind that idea is I think the main. The two main threats to the reflationary environment I've described because I do believe we are in this, global reflationary environment, but if we want to take a step back and think, okay, what could go wrong to this unfolding reflation?

I think what could go wrong? Is one of two things. The first thing that could go wrong to this global Reflatory environment is is a US recession. And, I think that the reason you might fear US recession is the, there's increasingly a lot of anecdotal evidence that the low end US consumer is being squeezed.

If you look at say the fast food sale, the, the latest corporate releases all the fast food guys pretty much had. Very poor numbers. So did a lot of the specialty retail Vegas numbers were also pretty poor. The, all the cardboard sales are about as ugly as they've been for a decade. There's little anecdotal signs here, there and everywhere that I think between, rising cost of of housing because you've got very rapidly rising cost of home insurance. Obviously higher mortgage rates, but also higher local taxes that is, the, I think the low end guys are getting a squeeze rising cost of car insurance because with the tariffs. Obviously replacing a car now costs more, so that gets reflected in car insurance. And you look at your car insurance costs and they have gone up a lot. I think the low end consumer in the US and the mid middle range consumer in the US is getting squeezed. And of course consumer consumption is such a big part of the US economy, which incidentally, is more or less the Trump policy. Let's not beat around the bush. The whole Trump policy is we wanna bring production home to the us. We want to, cut back on, on consumer. We wanna swing back towards the producer. And so if that's the policy, should we be surprised that, consumption in the us which is the real driver of US growth starts to stall a little bit.

So I think that's your first big risk to to the sort of reflationary environment that, that I've described. I think that the second big risk is the, perhaps the growing realization in the market that, you know. You've had tremendous excitement around artificial intelligence. Chat, GPT was released in November, 2022.

Since then, the US stock market has gone from 40 trillion market cap to 65 trillion market cap. Put things in context, that 25 trillion market cap is bigger than all the other markets in the world combined. Outside of China the total market cap of China is roughly 18 trillion. All these other markets Germany, France, Britain, etc, they're below five. Japan's at about seven. So the US has added more than the rest than the total value of the rest of the world combined. It's been simply unprecedented. The wealth creation that has occurred in US equities in the past. Two and a half years and under underpinning a lot of this because over that period, S&P 600 small cap index and mid cap index have done very little.

It's essentially been the 50 biggest stocks that have ripped higher underpinning. All of this is really the excitement around AI and the hope that AI was gonna leash

unleash a new wave of productivity and a new wave of profits. But we're now almost three years in and the profits have yet to materialize.

The CapEx is definitely materialized. The capital spending has been off the charts, but. Will these guys who made the hundreds of billions of investments actually make money from all these data centers and all these, massively expensive chips that they bought? Or will that end up being essentially write-offs?

And of course, if it's write-offs, then that'd be pretty bad news for the US stock market. It'd be pretty bad news for the US dollar, again, you go back to the Reflationary environment and you think, okay, what are the two big risks? One of them is that essentially AI doesn't fulfill its profit promise.

The other said, the US consumer starts to feel the squeeze and starts to hold back. These for me, are the two big risks in the system today. Now, either one of these risks means that the US equity market goes down. It also means probably that the Fed eases. It means that the US fiscal spending goes up higher, all of which ends up leading to a weaker US dollar.

So interestingly. Of course, depending how bad the recession is or how bad the AI face plant is, but you could conceptually argue that to the extent that these, you have these two risks, should they materialize but not materialize in too severe a way. All you end up with really is, lower feds fund rates, more fiscal stimulus in the us, weaker US dollar, and that combination actually turns out decently reflationary for the rest of the world.

It's, an interesting juncture because I completely get the argument for lightning up on US equities. Yes. US equities are expensive. Yes. They've had a hell of a run. Yes, they are overbought. Yes. There essentially held up on the premise that one, the US economy won't have a recession at a time when that premise is at least debatable.

And two, they're held up on the premise that. Profits on AI are gonna be magnificent. And the scope for disappointment there is quite high. But meanwhile, if you see that, does that mean that Chinese equities crater? Does that mean that Latin American equities crater does that mean that Japanese equities crater?

I'm actually not sure in fact all those markets could do quite well because. Essentially the NASDAQ would stop acting as, the big liquidity suck that it's been for the past 10 years or so.

**Erik:** Okay, Louis. So big picture. The trend is reflationary wanna be on assets that are gonna benefit from that trend and continue on that trend.

Stock market seems a little tired, probably not the right place to put new money into. That begs the question, okay, what is the trade that benefits from that reflation that's been beat up that you can buy cheap? How about high grade copper? The US

contract, the one that got absolutely annihilated when president Trump changed his mind five or six times about tariffs on copper.

**Louis:** Yeah, and you'll probably change it another five times before, before this interview's over,

**Erik:** but we're still way below the 200 day moving average. And you know that chart got absolutely clobbered and it seems to me it should benefit and eventually recover. I guess some of it of that, real froth well above five and a quarter or so was probably due to tariffs anyway, but at least getting back to 5.40 or so. That ought to be just a matter of retracement, but it's not happening yet.

**Louis:** I agree. I think when you look at the world's reflationary forces around the world, you have parts of the market that have been, that continue to participate. We mentioned the financials, obviously gold and the other precious metals, silver, all that stuff.

And other parts that have completely not participated. If all you had were energy charts, if all you had were the copper charts, to your point, you would say, what are you talking about, reflation? I don't see it. It's nowhere near to be found. I think, some of that is linked to the fact that Chinese growth has remained disappointing.

Let you know, let's not beat around the bush Chinese growth for all the stimulus, etc. China is still going through some level of balance sheet recession and, some digestion of the past few years, policy mistakes or whatever else you wanna call it. So you know, that I think has weight on copper.

It's weight on energy. And part of it perhaps is also frankly the lack of policy visibility in the United States. Who, who today wants to build a new factory? You're just joking. Oh, you'll change it five times again by the time this po this podcast is done. But if you're. An industrialist in the us an entrepreneur.

This is no laughing matter, having this lack of visibility really I think prevents you from really doing big investments. Now copper is, the typical metal for large infrastructure investments for. For large capital spending for factories, for all that stuff.

And whether you're in Vietnam, whether you're in China, whether you're in the us, Mexico, you're dealing with the level of policy uncertainty that you've never dealt with before. So for now, I think a lot of people are still sitting on their hands and. This policy uncertainty won't stay forever.

At some point, the US administration will say, okay, we have a deal with Vietnam and this deal is good for the next 10 years, and so on and so forth. And then perhaps it'll be a little bit like a coiled copper spring. And quite frankly, I think the opportunity in copper today is an attractive one.

Just as is perhaps the opportunity and energy. Now I know energy has been a dog with fleas and. It's been a, a drag on most people's portfolios and including mine. I've been probably too bullish on energy for the past few years. Here we are in a reflationary world and and usually, and it as the world reflates energy at some point starts to participate.

**Erik:** If you've got uranium in your energy basket, you're doing just fine.

**Louis:** Yeah, no, actually, it's not been that bad.

**Erik:** But but yeah, I agree on the oil and gas, it's it hasn't quite jumped onto the trend yet. Louis, as we're talking about things like copper, which are absolutely essential to running the global economy and the international trade of them is essential to the continued operation of the planet.

Let's talk about. The formative escalatory rhetoric. I think we're still years away, hopefully from kinetics here, but awfully strong rhetoric about US and China going to war over Taiwan at some point. I really hope that doesn't happen, but I had a call last week with a bunch of supply chain experts and I was asking them if we're about to go to war with China.

What are you supply chain guys doing to figure out how the heck we're gonna replace our complete dependence on China for our pharmaceuticals and for so many other things? You guys in the supply chain business must be all over that. And they said, no, Eric, the reason we're calling you is because we're wondering, nobody in the supply chain business is thinking about that.

We're wondering who is. I said, oh, I thought it was you guys. So Louis who's thinking about this?

**Louis:** I think the Chinese are thinking about it. You and I discussed this before in, in 2018, when the US essentially cut off China from semiconductors, China then decided, okay we have no choice but to build self-sufficiency in everything because whatever we're dependent on the west for today is a point of weakness that the west will press on in times of stress and or simply press on to prevent us from growing, which is of course, what the US was doing in 2018 with the semiconductors. Followed a period of seven years where China invested in all of its money in industry and none of it in real estate. And you see this very clearly in, in the bank loan data.

And that leads us to where we are today. And I think when you look at China's, I would say posture on the global stage, you've had a dramatic evolution in the past seven years. In 2018, essentially when Trump comes out swinging against China, China takes the punch. It knows it, it has no choice but to take the punch again in 21 when there's the Anchorage meeting and, Blinken and Sullivan and accuse Wang Yi of all the crimes and and all sorts of things.

Again, China takes the punch and then comes 25. Trump comes back in and starts punching against everybody against Mexico, Canada, Europe, India and China. And China is the only real country that, stands up and says, you know what? You want to go? Let's go gloves off. Let's have this fight. You put tariffs on me.

I put tariffs on you. You put an embargo on your semiconductors, I'll embargo my rare earths and I'll embargo my magnets. And at this point, I think the US realizes, hold on. We're now three weeks away from GM plants shutting down 'cause they don't have the magnets.

We're now two weeks away from the Lockheed Martin and Raytheon plants not being able to produce missiles. And this is a real problem because Israel and and Ukraine are firing these missiles at a pretty heated clip. So what you find is all of a sudden the US has no choice but to meet with China and Geneva.

I think back down, and it brings you to, to the sort of equilibrium that that we're in now. Now you mentioned Taiwan. What I find fascinating I'd invite your listeners to do a Google trend search. Where you can, like Google searches the number of mentions of something in the media and to do it for the US media.

And you'll find that in the past four months the mentions of Taiwan have simply dis. And six months ago, 12 months ago, we kept being told that, it was either next week or the week after that China was gonna invade Taiwan, etc. Now nobody talks about it. It's just completely dropped off as a topic and, again, do a Google trend on it.

And I find this fascinating. Because essentially to me, it confirms that the US and China have now reached a sort of stable equilibrium where China doesn't want the relationship to get worse. Because the main concern of the leadership in China is always to keep domestic stability.

It's always to keep domestic peace so that they have no real incentive to pick a fight with the us. But the US now is forced to realize that actually it can't pick a fight with China because if it does, China's gonna stop selling it. The components it needs for the missiles that it would need for the fight with China.

So it, the US is now in a sort of catch 22. And I think this is why, you just saw the Pentagon release a paper highlighting that, you know what the days where the US could essentially. Keep the peace in Asia are now over in the new age of drone warfare of hypersonic missiles.

The US fleet can't be protected out in Asia, and in this paper suggested that the Pentagon should just have a strategy of focusing just on the western hemisphere, on the Americas continent, essentially building Fort Monroe and focusing on just this, and so I think that, the scope you mentioned, the kinetic war, the scope for a war between China and the US is now going down very fast.

Which is of course very bullish for China. One of the big reason everybody thought China was uninvestible the reason we live in a world of A, B, C, anything but China was this belief that, we were gonna have a conflict as this belief dissipates , what you find is, Chinese equities that had spent five years de-rating continue rerating absolutely every single day.

But more importantly, what all this shows is that. While the US supply chains are now very vulnerable to you mentioned the pharmaceuticals, I mentioned, the magnets, the rare earths, etc , while the US supply chains actually very vulnerable to potential outside shocks the Chinese supply chains are now following a massive seven year effort.

Extremely resilient. And so I think that's an important shift in the world that we live in.

**Erik:** Louis, the things that you describe all suggest to me that we really ought to be avoiding any kind of conflict with China or any other country for that matter. What should I make of this picture, which nobody in the west seems to be paying attention to, but it freaked me out.

You've got. Putin with Modi on one shoulder and Xi on the other shoulder with a look on their faces that just says, this is the propaganda picture that's meant to send a message to the west that you guys better not mess with us because we're going to respond together. That was the way I res, I perceived that picture.

Obviously, I'm reading a lot of meaning into the look on three guys' faces. And I then last, last week Dr. Anas Alhajji told our listeners about the power of Siberia pipeline, which sounds like a massive infrastructure investment to further build the economic connections between China and Russia.

Should the US be concerned that I mean is this, these forces coming together to come and get the us or are they coming together to defend themselves against a perceived threat from the us?

**Louis:** Or maybe they're coming together to, to do stuff together and the US is less involved. But yes, look, I think these were all very powerful moments and very and to be honest, world changing moments.

First of all, to your point, Modi, Xi Putin, they looked really happy together on stage. They looked really happy, you all smiles, all hugs. They weren't French kissing, but it really wasn't that far off. They really seemed keen to be together. Now. I think this is of course, to your point, a super important message for the world because if we think in terms of, the mega trends that might reshape the world for the next decade or so in the Western world, I think we focus pretty much all of our time on two massive trends.

And I'm not saying these trends are bs they're very real trends. But the first one of course is AI. That's it's, how much is that gonna change the world? If it really

changes the world, how much does that change the workforce? What does that mean for our welfare states, etc.

Lots of questions around the impact of AI. I think that the second big mega trend that, that everybody focuses on is the growing realization that most OECD countries and especially the big ones, the France, the Britain, the US Canada's fiscally are cruising for a bruising. That, even in periods of economic boom, they're still running budget deficits of 5% 6% of GDP government debt keeps on expending fiat currencies keep on getting debased at an accelerated pace.

These are the two big mega trends when I meet with Western investors. This is all the two things they want to talk about. And, that's why gold is going up the way it is. That's why Bitcoin has done what it's done, etc, etc. But let us imagine. For a quick second.

Now you could say, this is science fiction. It's not gonna happen. But given how they were hugging each other on stage, let us imagine a mega trend where the Russian, Chinese and Indian economies start to integrate more with each other. You start to see more trade, you start to see more exchanges, more trade in their own local currencies and so on and so forth.

University exchanges or, you name it. Now here's here's what's fascinating, why I think this could be an extremely powerful trend. Russia, for all intents and purposes, is the world's biggest commodity producer. It produces everything, oil, natural gas, coal, iron ore, you name it.

Copper silver uranium, Russia produces it and it produces it typically cheaper than anybody else. China is the biggest producer of machine tools by long shots. It's the biggest producer of consumer goods by long shots, and it has the cheapest cost of capital in the world today. And India, of course, now has the deepest pool of cheap labor in the world.

'cause labor is no longer cheap in China. Let's not kid ourselves. So imagine you match the cheapest commodity producer with the cheapest capital goods, cheapest cost of capital. And the cheapest labor. You put all this together in a pot, what comes out could be really powerful.

And, here's something funny for you. If you take the top 30 market caps in the world the top 30 companies by market cap. You find that 24 out of the 30 are American. And then you think, okay, if the big macro trend of the next decade is the integration between these three guys Russia, China, India, how many of the top 30 companies will benefit from that integration?

Maybe Tencent, maybe Alibaba, maybe Saudi Aramco. And that's about it as you go through that list, maybe Samsung. But as you go through that list of the top 30 if you think, most people have equity index portfolios, and if you think, okay the big macro trend of the next 10 years will be AI, then you know, then you're fine with your index.

You're exposed to this, you're exposed to plenty. What if AI turns out to be a bust? And the big story of the next 10 years is that economic integration between the three. And here, you and I have discussed this in the past as well, I always say, if Hong Kong is really the center of the world, it's the center of the, at least demographically speaking, within a five hour flight of Hong Kong, you have more than half of the world's humanity.

That lives there. Now you could say, yeah. So what? Who cares? It's always been the case. What? What's changed? I think what is changing right now in front of our very eyes is that, a generation ago. Two thirds of that half of the world population. Within that, it's called the Valeriepieris Circle, where more than half the population lives.

Two thirds of that population was rural people living in the countryside, very little disposable income living pretty much lives not that different from their grandparents' lives and their great grandparents' lives, etc. Now two thirds of that population is actually urban. Now the reason this matters is economic growth tends to happen in cities.

This is where you have universities, this is where you have businesses, people exchanging ideas, etc. Now, all the cities in that valley, Pierre, is circle where essentially independent islands. Barely talking to one another. Still to this day, there are no direct flights between Mumbai and Shanghai, or between Delhi and and Beijing.

It's now, there's, I think there's 24 daily flights between New York and London come back in five years and 10 years. How many direct flights between Mumbai and Shanghai? It'll definitely be more than zero. I'm pretty much willing to bet a lot on that. And so as you get these flights, as you get more telecoms, as you get canals and roads and ports built as you get exchanges this is where the growth I think will happen.

And to be honest, if all you are doing is owning an index fund, then you're not gonna be exposed to it, at least not for a long time until the indexes start to reflect this growth. And by then, you'll have missed probably at least half of the party.

**Erik:** Louis, while we're discussing China Chinese equity markets are starting to rip.

Is that the beginning of the trend to jump on?

**Louis:** Yeah, you look, I think the Chinese equity bull market started in earnest in January 24th. That's when the government stepped in to, to put a floor under the market, and they've stepped in a couple times since then. Essentially signaling to the market, look, each time this goes down 10%, we'll we'll buy in and I think the, there's a lot of drivers to the unfolding equitable markets. The first and biggest driver simply is the difference between. Today's dividend yields and the cash, the money that that the interest rate that people get for cash at the bank you know that differential is basically 3.5%, 4%.

And so this means that each time the market dips a little bit you do see Chinese savings. The individual savings, which are very high 'cause they're no longer buying real estate. They've just been, so shell shocked. They've kept a lot of money at the bank. As soon as stocks fall 10%, the the Chinese savings come in and buy all the high dividend yielders, whether they're PetroChina or China Mobile or or Bank of China.

All these companies that, people know the government isn't gonna let go bankrupt. Still offer dividend yields of 5%,6%, sometimes seven, 7%. So I think you do have this rotation and as long as the government is perceived essentially to backstop equities that will continue.

And as long as you have this very high positive differential between, again, cash yields on bank deposits and dividends on the other. But I think there's other drivers that are increasingly emerging. You just discussed, the fact that the US China relationship is probably now finding a sort of even keel and isn't gonna deteriorate from here.

I think we're gonna get confirmation of this in late October when President Xi and Trump meet at the APEC meeting in Seoul. And. If anything mildly friendly comes out of this will be a massive green light for a lot of foreign investors to participate in the bull market in China.

And last year China was the best equity, best performing major equity markets. I. This year, again, it's it's outperforming the us it's actually outperforming most markets. I think there's, I could wax lyrical. There's other drivers to the unfolding bull market.

But the reality is Chinese bull markets typically end in one of two fashions. We are in a bull market today. The market has essentially doubled since January 24. And most Chinese investors are very momentum driven. Things go up, they buy more.

They're, they, they're very momentum driven. And Chinese bull markets typically end in one of two fashions. The first way Chinese bull markets end is the governments decide that enough is enough. They crack down on margin loans. They raise interest rates. They sometimes, they.

They crack down on sectors they don't like, like the education sector or, Jack Ma goes missing for six months. And when the Chinese policymakers make it pretty obvious that we don't want stocks to go up anymore because we're worried about, feverish speculation. That's definitely a time for you to get out.

Now, today there's absolutely zero sign that it's the case. Quite the contrary, given the weak domestic growth, they're doing everything they can to prop up and boost asset prices. So right now the government is fighting in your corner. You don't have to fight the government. The other big, usually the, the end of Chinese equity bull markets come around when you see massive equity issuance when as equity prices go up, you start to see a bunch of IPOs, you start to see a bunch of rights issues

essentially companies saying, you guys like this paper here. Here's a bunch more of and.

Almost 30 years in China. I've often said that perhaps the best indicator for the Chinese equity market is how thick your copy of the South China morning post is. Because when there's the IPOs and and rights issues, etc, you get like full page advertisements. In the in the South China.

And so the thicker your South China morning post copy is the more worried you need to start becoming. Today. The reality is, yes, we've seen a pickup in IPOs, but it's hardly being a liquidity drain, especially when one contrasts with the amount of liquidity that central bank is still pushing in the, like I mentioned, the budget deficit of 10% of GDP, etc.

So for now, yeah, I think we are in a bull market in China. The next leg of the bull markets will most likely be driven by Trump and Xi meeting in Seoul some kind of arrangement. I would imagine that part of the arrangement will be a mild revaluation of the Reminbi that will give even more confidence to local investors.

Right now we're in a pretty positive cycle. Most people are looking at it from the outside and, they, most people feel why do I need to be, why do I need to bother with China? US stocks are doing great. European stocks have been doing great, good for China, nice for them to have a bull market, but I don't really care.

Not my problem. But I think this is where, the big opportunity is today.

**Erik:** Let's suppose we wanna pursue that big opportunity, take a heavy position on Chinese equities as an American investor. Some people would say, Hey, that's a suicidal thing. Maybe the trend is there, but from a geopolitical standpoint, if US goes to war with China over taiwan or anything else, it's entirely reasonable to predict that one of China's moves might be to essentially confiscate any, overseas investment until it's over or something. Are you taking a risk there? Would you worry about that? If you're a, say a US institution thinking about a big position in Chinese equities, do you worry about a nationalization or war risk, or is it just, too far of an outlier?

**Louis:** Look, I first, I think if China and the US go to war, we'll have more to worry about than just our portfolios.

**Erik:** I agree with that.

**Louis:** What you're talking about is World War III, Armageddon. So at that point in investing for Armageddon, seldom works. Now, because by the way, if they do go to war what's Nvidia worth?

Let's assume they do go to war and TSMC, is the first thing destroyed in this war? How does Nvidia produce chips? Where does Apple produce its phones? What is

Tesla worth? So if you think, if you're. Per worldview is us and China are gonna war, are gonna go to war.

Ergo I'm gonna own Nvidia, Apple, and Tesla. You're gonna have a nasty surprise the day that hypothetical war comes around. Now, my view is much simpler than this. Is. Not only is a war between them, unthinkable it, it also isn't gonna happen because like I mentioned, the US can't produce rockets.

It can't produce cars without China's help. And it's gonna take at least 10 years, if not 15, for the US to be able to produce its own magnets for the US to be able to produce its own rare earths. And that's if they start now with a massive industrial policy and epic industrial policy and billions, hundreds of billions of dollars in capital investments and essentially building rare earth refineries in the US at a time when, you know the not in my backyard. This is, which is one of the most polluting thing you can do at a time when the not in my backyard forces in the US are so high, etc. Bottom line how can the US go to war with China when it can't produce weapons without China's help?

And if you can't answer that question cogently, then you know that they can't go to war against each other.

**Erik:** It's pretty darn clear by that description that they can't, why are they talking so aggressively? So much rhetoric about going and doing it. I don't get it.

**Louis:** Because how do you sell the next aircraft carrier?

How do you sell the next, F35? How do you sell the next big weapons project without an enemy? You need, the US military industrial company, the US military budget is a trillion dollars a year it's more than the next 10 countries combined, and it's the US can't cogently be invaded by anybody.

And how'd you justify that? You need to say, okay China's gonna invade Taiwan, or China's gonna invade South Korea and, you need to create the boogeyman the scary guy. Otherwise you have no US military industrial complex.

**Erik:** So when you see US senior military officials that are actually writing papers saying, look, war with China, we should just accept it.

It's inevitable within the next five years, you think what they're really saying is, we need to pump up the defense budget. Let's invent a boogieman so that we get some public support.

**Louis:** That's one way to look at it. But I think increasingly, look, I think with this new administration we have a more isolationist administration than we've had in a long time.

I think you, you have an administration that acknowledges that the US has fought two wars in the past 20 years to very unsatisfactory results at great costs in blood and treasure. That if the US can't win in Afghanistan, and if the US can't win in Iraq, what are the odds that they're gonna win in China?

The reality is that wars between superpowers are essentially wars between industrial systems. That, that's the simple reality. And, you look at World War II, and this isn't to take away from the courage of American Marines who stormed the Normandy beaches, etc, etc.

They, you needed the courageous soldiers and the US had them, and it was tremendous. But the reason the US won the Second World War is that. The US outproduced, Japan and Germany by a factor of five when it came to tanks, when it came to airplanes.

There's a great book on this called Valley Forge, which I would recommend to all the readers.

The second World War, and again, I'm not taking away from the valor of American soldiers or Russian soldiers or British soldiers or anybody but the second World War was won in Michigan. It was won in upstate New York. It was won in the US rust belt. That could produce more trucks, more planes more than anybody else.

The reality today is that. There is only one global manufacturing and industrial superpower, and that is China. You look at China's manufacturing exports. China's manufacturing exports are now greater than the US's The Japan's and Germany's put together manufacturing exports. So you take the next three.

China still does more than the next three combined, all this to say that we can't go to war with China like we the western world. We can't go to war with China. It'd be absolute madness. It'd be just as stupid as Japan bombing Pearl Harbor. You awaken a giant that can outproduce you 10 to one.

It's not gonna happen.

**Erik:** Louis, I can't thank you enough as always for another terrific interview. Before I let you go, let's talk a little bit more about what you do at Gavekal. What services are on offer there for our institutional listeners and for our retail guys? Where can they follow your work?

**Louis:** What do I do apart from bitching about the US military industrial complex? The no jokes aside. Yeah, we we publish research. We manage money both for institutions and for private clients. You can find the best place to find us is at our website [Gavekal.com](http://Gavekal.com). I happen to be on [Twitter](https://twitter.com), but I don't tweet all that often.

But people can still follow me on Twitter mostly. I just make silly comments on Twitter, so don't hold that against me. But if you have a short fuse, maybe you don't

want to follow me, but the the best place the more serious place to, to keep in touch with with what we're doing is our website [Gavekal.com](http://Gavekal.com), G-A-V-E-K-A-L.com.

**Erik:** Patrick Ceresna and I will be back as Macro Voices continues right here at [macrovoices.com](http://macrovoices.com).