



### ***Has The Luke Gromen Moment Arrived?***

**Erik:** Joining me now is Forest for the Trees founder Luke Gromen. Luke, to my thinking, there could not be a better time for you to be acknowledged as our second most popular Macro Voices guest ever. The reason I say that is nearly a decade ago, I coined the phrase, the Luke Gromen moment inspired by the Minsky moment.

And what I mean by that is when we first started talking nine years ago, or ever since then, I have been. Absolutely convinced that you would be proven right in the end on your bold calls that the US dollar was eventually gonna fall into decline, fall outta prominence, not be the us or not be the world's reserve currency anymore, just as the pound sterling fell out of popularity a hundred years earlier.

But I also said at the time, I thought you were early. I thought it was several years away, and, and I knew you'd be proven right. And of course you got ridiculed along the way and so forth. Let's start just by making sure I'm not overreacting here, because I don't think you're early anymore, Luke. I think the Luke Gromen moment is happening right now, kind of scares the shit outta me.

And then I read your last three writings, frankly, over the weekend, and that scared the shit outta me even more. So is the Luke Gromen, uh, moment that I describe actually happening the way that I think it is. Am I being true dramatic or is the shit really hitting the fan in a bigger way than most people seem to be talking about?

**Luke:** Well, first, thanks for having me back on and, and congratulations to you and Patrick. I'm honored to have, have been a part of your guys' amazing success and, and wish you all the best and continued success from here. So, to answer the question you know, I, I've always thought of I guess the quote unquote Luke Gromen moment was sort of a, a gradually then suddenly phenomenon, right?

Like, how'd you go bankrupt little by little then all at once and have a few. Having me on for this actually caused me to search for my first appearance. I wanted to see when it was on Macro Boys, isn't it? It was

September 8th, 2017, and the title of that episode was, was Luke Gromen. The biggest mean reversion in 50 plus years is underway.

And so at that point, we had been bearish on the dollar beginning late 2016 at a time when most were pretty bullish on the dollar. In fact, you let off by saying that, you know, we had so many secular Dollar Bulls, we wanted to bring listeners a credible secular dollar bear. So here, here's Luke. And so, at that point, the dollar had hourly fallen that year in 2017 from 101 to 94 by the time we did that first interview.

And, you know, we said, look the Dollarization trends that had kicked off the Dollar Bowl market in earnest in the third quarter, 14 had gone too far. And you'd started to see the deficit in the US. As a percentage of GDP back then in, in 2017, re widen for first time since oh nine and only the seventh time since 1969.

And basically every other time we had a recession, or one time we didn't, we got the dollar devalued at the plaza accord. What we said was like, look, if you look at the debt levels, a recession isn't a policy option. And so we think that the government's gonna, we gonna weaken the dollar.

And so we did see that. And the key thing within that was that was the first time in our career in any dollar at that point. Up until that point, we'd been a bull in, in 16 up until early 17, we had never seen the US fiscal situation. The deficit widen or the fiscal deficit sort of breakout before you had an EM crisis.

But that's exactly what happened. And so what we said in, in, at the bottom line was, look. Because foreign central banks stopped buying treasuries back in three Q 14 on net. Either the fed's gonna have to raise rates. They tried to, it didn't work because the fiscal situation broke before emerging markets.

They're gonna have to force us domestic investors to buy treasuries. They did. Or the fed's gonna have to grow their balance sheet. And so we, we kind of saw that. And so when you, when you look back to that, it's pretty amazing. As you know, from the date of our first show with you, you know, fed balance sheet was \$4.4 trillion.

It's 6.6 trillion now after nearly four years of qt. Um, you know, on that show you asked us, Hey, what's the trade? And we said, look, in a

nutshell, the trade long gold short oil, you know, that day gold oil ratio was 22 barrels an ounce today at 61 barrels an ounce all time high. GDX gold miners, which is a proxy for gold oil ratio, was 22 bucks at 73 today.

So you got a couple triples in eight years. 15, 16% KRS for both. We also warned on that show about long-term treasuries. We said, look, something that jumps out at me as I try to look at forest for the trees is US retirees, commercial banks and pension funds are all the biggest bid for long-term treasuries.

And if those groups are on the right, the right side of a major macro trade, well ahead of time, it would probably be the first time I can remember in my 22 plus year career on Wall Street. And so, you know, we said that that day, the TLT Long-term Treasury, ETF was 125. Today it's 88, so down 35% in risk-free long bonds when, you know, long-term treasuries had basically been a one way trade for the prior 35 years up to that point.

Uh, and obviously, some pretty well-known long-term treasury bulls were sure that deflation was gonna drive, ETF, you know, the T-L-T-E-T-F, uh, higher and higher and higher. And then finally, on that first show, you know, we said, look, I think the overriding message of the political populism that has broken out in the US and in western social democracies over the last six to 12 months.

Is that all the US entitlements are gonna get paid with printed money. And I think that's what maybe Mr. Market is starting to discount. I said on the show you've seen a breakout in the s and p 500 over the TLT the, uh, the long bond ETF very pronounced breakout in a 25 year chart. So, you know, went back and looked at it today and, and you know, that day the s and p over T-L-T-E-T-F was 20 and today, you know, it had recently broken out over 15 for the first time in at least 15, 20 years.

You know, today up from 20, the s and p over TLT is 75 x, so nearly quadruple in eight years. And so all of which I bring up by way of, of background to the question regarding the Luke Gromen moment is that I never really saw it as a moment. I saw it as more. Gradually then suddenly, you know, and gradually was, you know, gold to oil ratio up three X in eight years.

It says 15 16% cagr, TLT down 33% in eight years. GLD over TLT up four x in eight years, s and p over TLT up four X in eight years. You

know, the dollar's been 94, it was 94, then it's 96, 97 today. You know, we've been tactically bullish and bearish a few times in the show, but you know, I think overall pretty good calls, pretty good positioning early.

Yeah, I think probably maybe, but you know, we should all get 15 to 20% CAG run levered returns on our early calls. Right. In terms of what we were saying. So that was the gradually part, you know, it worked out pretty well for Ffft clients. Worked out pretty well for my own portfolio. And so with as by way of background, as that context is the Luke Gromen moment, I think are we, I think it's really about are we going from gradually to suddenly? And, and to your point, I think we are, I think the suddenly portion is beginning. Uh, you know, we wrote two weeks ago, we thought the fall of the, or the, excuse me. We thought the week, the, the week of the SEO, the Shanghai Cooperation Organization meeting was might've been the most important geopolitical week since the fall of the Berlin Wall in 1989.

And, and if that's right and I think it is, then I think we're likely to see things accelerate further.

**Erik:** Look, I want to congratulate you. I think you've made some brilliant calls over the years and I wanna be clear when I've said you were early, I meant the part about the US dollar falling out of providence and not being the reserve currency.

I thought that was early. You've certainly been very timely in a lot of your past calls. Luke, I think what we need to get to is what causes the state transition from slowly to suddenly. What is it that causes that to happen? And I think it's the recognition by all the people that were in denial that, oh, he was right.

You know? And think about the pandemic. All of us who called the pandemic early were being ridiculed. We were being called alarmists. We were, you know, all kinds of stuff. And then one day it's like, well, duh, everybody knows there's a pandemic. You know, what's what? Do you think you're smart? And I think all of the sudden, the Luke Gromen thinks the US dollar is falling out of, you know, reserve currency status.

That means Luke has to be a conspiracy theory nutcase. No, I don't think anybody thinks that anymore. I think it's pretty darn clear. Is that what's going on? Is everybody else is waking up to it? Or is it something else that's causing that sudden acceleration?

**Luke:** I, I think it is. I think it's a gradual awakening, I guess, and on multiple fronts, right?

So when you highlight that, you know, you can look at things objectively, right? So all of a sudden gold is now bigger than the Euro in at Global FX reserves. And it, uh, after another two or three years, if we assume another two or three years of, call it 800 to a thousand tons of Central Bank gold buying, we assume modest gold price appreciation for the next two, three years.

Gold is gonna be the biggest global reserve asset. And then that just gets into a question of semantics. If gold is the biggest reserve asset, it's bigger than the dollar. Who, what's the primary reserve asset? The dollar or gold? And, that I think is, is part of it. I think the other thing.

May, and maybe the biggest thing that is really starting to drive a recognition is the the reaction to the trade war. And in particular, post liberation day, remember we came into Trump's administration and, you know, it was, Hey, we're gonna, we're gonna doge, we're gonna cut and we're gonna strengthen the dollar.

And okay. And we tried to Doge and we couldn't, you know, we saw very quickly, oh, we're gonna take pain. Well, we took pain for like, 10 days. And then the treasury market started dysfunctioning. Uh, we weren't able to scare money out of stocks into bonds. Yields went up, not down as Bess and a lot of other thought.

And I think that was sort of strike one right. To, to the recognition. Then more specifically, uh. April, April 7th, I think it was Bessant who on Wall Street I think is, was seen by sort of the, the adult in the room, if you will within the Trump administration, right? He's our guy. He's the adult in the room and the adult in the room.

Bessant sat on April 7th, Tucker Carlson as the debtor, as the trade debtor. We have all the leverage with China. They're gonna do what we tell 'em to do. And on April 9th, the US treasury market dysfunctioned severely very badly. The move volatility index hit 175 or something intraday, which it had only done like when Lehman nine 11, the 87 crash.

Like all it was, the treasury market was breaking. And Trump, it it, that led to the phrase taco right? Trump always chickens out. That led to the

first Taco instance. We've also, you know, I think people said, well, we, we, we don't need the Chinese to supply us. We can get it from somewhere else.

And, and then, you know, major US retailers went to the White House, I hear in either late April or early May, and said, well, not really, actually, we can't do this without China, and we taco it again. And so I think there has been a recognition, even most recently, how many times have you and I ever occurred from China Hawks that, look, if we cut off food to China, China will starve.

We've heard, I mean, I've heard it so many times in my career, too many times they count. And yet the Chinese have not bought a single new crop, soybean or a single new crop corn from the United States this year. The Chinese aren't starving. Why? They're getting it all from Brazil. They're getting it from elsewhere.

So they don't need us on food either. So we have no leverage on trade. We have no labor. Our, our treasury market broke in five seven trading days after liberation Day, which yes. China would've been hurt, but they weren't gonna be hurt in seven days. I, they probably weren't gonna be hurt in seven months.

So I think that was, you know, we didn't have leverage on food. We didn't have leverage on trade, we didn't have leverage on the treasury market. And then the rare earth situation got layered on as well, which was, as it turns out, again, something else we've been highlighting for a long time was ultimately you know, the key parts of the US military are made in China, and particularly around rare Earth.

And the, the information was all out there. But again, I don't know if it was confusion or busyness or hubris or, or what, but US policy makers seem to think we have all the leverage and we literally can't go to war without China on the conventional side. And so then you layer that on. I think as you kind of layer these things out, that leads to two things.

It leads to the recognition on the trade side that we don't have all the leverage. Then you start looking at some of the stuff that actually, the biggest export market for Chinese exporters relative to the US is, is actually is, is actually consumer electronics and that for a lot of other stuff.

The Chinese consume a lot of their own stuff. And then I think the final sort of reason why we're seeing this acceleration now is because rightfully, you know, something we've heard, and like I said, I think it's, it's rightfully that anytime someone says, well ultimately the US military backs the US dollar.

True. But we just had it demonstrated that the Chinese rare Earth and Chinese factories back the US military. So what actually backs the US dollar? And I think there is this growing recognition. We saw it even again this week. Critical shortages in germanium. Uh, we've seen it a number of other different key raw materials mostly around rare earth, but elsewhere as well.

The Chinese have just stopped sending the stuff as it relates to the US military. And so when you layer all those things on, you realize the US doesn't really have the leverage we thought we had. So when you look at the reaction to post liberation day along the five stages of grief, right? Denial, anger, bargaining, depression, and acceptance.

There's still a lot of investors that are just now getting out of denial. Out of this, Hey, we have all the leverage. And that was pretty obvious from like before it started. You're getting into some of the anger, right? When you hear things like Secretary Bein telling Pulte that he's gonna punch him in his effing face, uh, at Chamath birthday party at the White House a couple weeks ago.

I think that's anger. I think he's under a lot of stress. I I would be too. And now we're kind of starting to get, I think, mainstream into this bargaining. Well, like maybe if we sort of cobble together the Europeans and, and, and the Argentinians and we can create this buying group and we can cut out China and like it's bargaining.

It's it, it's, it's gonna work. Um. We still have to get through bargaining and then into depression, and then into acceptance of all of this. So I guess I would say the last thing as sort of wise accelerating is in the first half of this year, it has become very apparent and obvious that another thing that was said by the establishment was wrong, which is that, Russia was, you know, the ruble was rubble.

Russia was a gas station with nukes, blah, blah, blah, blah, blah. You know, they're putting, they're fighting the US military with tanks that they had to put chips in from washing machines. That was US official

government saying that three years ago, well, either our military couldn't beat a bunch of guys who had washing machine ships in their weapons systems, which would be very disturbing or more likely.

And the truth Russia's industrial base is in better shape than ours because we've been offshoring it to support the dollar system for 45 years and they've outproduced dust. And so I think there's this. Reason why I think we're watching this quickening is this accelerate, is this, this sequence of demonstrable empirically demonstrated facts that we don't have the leverage that we thought we did to support the dollar system.

And ultimately, if we can't go to war to support the dollar system from China and Russia trying to change the dollar system because China makes key parts of said military then we're gonna get a change to the system. And that's where we are. And that's why I think we're seeing the quickening.

**Erik:** I want to go back to something that you said earlier, Luke, the Shanghai Cooperative Organization meetings that were held recently.

You follow much more closely than I do. All I know about it is I was taken aback by a photo I saw of Vladimir Putin, Narendra Ram Modi and Xi Jinping, obviously a a, you know, made for the press, uh, for public consumption. Photo intending to show, at least the way I interpreted it, that Modi or, or that India has pivoted to China and Russia, or is in the process of doing so.

It was like two or three days later, or, you know, wash, rinse, repeat. I see another photo. This time it's Putin standing shoulder to shoulder with Xi Jinping and Kim Jong un, north Korean head of state. And I, and that was at a military parade. I mean, that's a pretty unmistakable message. The, the guys that are in charge of most of the nuclear warheads on this planet are working together, and they don't wanna be messed with.

So I look at this and I think, oh my gosh, that's like really big. I gotta get on this. I Google iconic photo news coverage, and sure enough, it's the biggest thing. Well, the biggest thing in the United States was the photo where Sidney Sweeney apparently put on some blue jeans, and that's created an ideological.

I don't really get what the battle's about anyway. Luke I don't think we're paying attention to the most important stuff. So obviously I brought that

up to point out the irony of the corporate media's priorities, but I really think there's an important and serious issue here. You're saying, okay, we're we're just at maybe the denial stage, why, or, or some people are.

Why would you expect anyone to ever come out of the denial stage if the news coverage about the things that are like really, really important signals are being replaced with sydney sweeney's blue jeans? Help me with this. I mean, and, and it's, I'm not just ridiculing them. I'm saying, seriously, until this gets fixed, why would you expect, you know, the mainstream to ever come around and see what you see if what they're paying attention to in the news is very different than what you're paying attention to?

**Luke:** I think part of the media strategy is to distract. And without getting myself totally in trouble, I, I will tell you, my sons certainly noticed it. They're all, uh, the young adult men and yes, they absolutely noticed.

**Erik:** Luke, you had the opportunity. All you had to do was to just run with the Sweeney story, figure out how to pull Taylor Swift into it, and you could have totally leapfrogged next week's mystery guest and locked in more downloads than anybody else.

But you want to talk about little stuff like, you know, the future of humanity and how it's gonna play out in financial markets. Fine. We'll do it your way. Go ahead. What did you write about on the 9th of September? On the 9th

**Luke:** of September, I said, I thought what had just happened the week before at this Shanghai Cooperation Organization meeting, or SCO meeting might have been the biggest geopolitical week since the fall of the Berlin Wall.

And what we pointed out was you had this meeting, which you saw the pictures, uh, with, with Putin, um, Modi and Xi, which, you know, to me, I think, you know, discredited an army of think tankers in Washington, right? Because we were supposed to be sort of, you know, splitting those three, any number of different ways against each other.

We used the, the media, or excuse me, the picture you referenced to the parade. We had Russia and China signing a major gas deal, uh, that could reshape global energy markets according to the fact in which the head of Gazprom said it was likely going to be priced, uh, the same way

the other gas deals were between them, which was to say in rubles and in foreign currency, which is to say not the dollar.

It highlighted, of course, you know, the, the military parade unveiling new weapons. It was followed by President Trump accusing she Putin and Kim of quote, unquote conspiring against the United States of America, which one of the charms about President Trump is that he will several times a year actually tell you what's going on by virtue of sort of some sort of impulsive, uh, uh, expost or, or, or true social posts.

And I think these were one of these, I think he got a briefing about like, uh, sir, this is happening. And he immediately took to his phone and then he followed that up. E even more tellingly, uh, by conceding it seemed like to me, to the bricks saying, it looks like we've lost India and Russia to deepest, darkest China.

May they have a long and prosperous future together. Which to me, like I said, read as a, as a concession post on truth social after him getting a briefing about what was decided there. And then finally, all in the same week over that weekend, the US Pentagon, uh, released the New National Defense Strategy report, or at least, uh, drafts of it to the Washington Media.

And they said it was gonna be pivoting away from China in a much more realist view and focusing on a more sort of Monroe doctrine like policy in our own hemisphere. And so, like to me I thought that was an enormous set of events. And what I think it meant was that, you know, sort of this, this daisy chain of things we highlighted started highlighting back in 17.

And we've talked through the years, um, that to your point, they were still early. We were still describing things. They stop buying treasuries on net, they start shifting commodities outside the dollar with net gold settlement. They do China 2025, et cetera. They've now reached this point where they're comfortable sort of, coming out on the town on the Grand Promenade.

And, China Rush and India are using their real economic cloud in manufacturing and energy and commodities and, and in population. They're essentially restructuring the rules-based global order. They're gonna force gold back into the system as a neutral primary reserve asset to replace treasuries, to replace Western sovereign debt.

And ultimately over time, that means Western central banks are probably gonna have to engage in some form of yield, curve control or its proxy through, you know, the genius act, stable coins, however they want to do it. And I think that was. I think that week was, we're gonna look back in five years, 10 years, and at the same way we look back at when the Berlin Wall came down, like everything changed.

**Erik:** Luke, when I read that September 9th piece, I was extremely impressed. Listeners, we do have it for you. It's linked in your research roundup email. If you don't have a research roundup email, just go to our homepage, macro voices.com. Click the red button above Luke's picture that says, looking for the downloads, Luke.

Wow, it was a doozy. I thought it's gonna be a long time before Luke comes up with another tree rings report that, that matches this one. Uh, you actually outdid it three days later on September 12th. And I'll tell you, I just had a really strong reaction to that. I've been reading your stuff for years and the way I read it, Luke, is, Luke's a smart guy forecasting some long-term trends that haven't happened yet.

It feels to me like you're like reading color commentary on really big stuff as it's going down. To me seems like a really big change from the way you used to write and report on things. And it sounds to me like it's a very direct reflection of what you described earlier, which is we're going from the slowly at first to the all at once.

So am I right? I mean, is that how you perceive what's going on? And obviously we've teased the listeners now you gotta tell 'em all about what's in the September 12th report,

**Luke:** right? I always say it. And so people will laugh when I say it here is, is, well, you know, what's normal for the spider's? Chaos for the fly, right?

Like, if you're long gold with all this happening today, you're not unhappy. You know, if you own Bitcoin, I think if you own stocks, you're not gonna be unhappy. You own long term bonds. You know, I think you're, you're gonna be fine. But you know, I think you're gonna go from, you know, eating steak to eating hamburger, to eating dog food, to eating kibbles and bits, you know, so, that's okay.

What really has gotten why I was so, you know, high, really focused on, on, on the pace of events and, and highlighted in that piece was. Look, three weeks ago we had this SEO in the China parade, right? That that effectively threatened, you know, mutually assured destruction, you know, with a demonstration.

Essentially what they said in plain English, conventional war with China and Russia is gonna lead to mass casualty events in major western European cities, major US coastal cities. That was the message that parade, uh, in my opinion, and I think you've gotta take a step back within that and why it got me.

So, you know why, what happened that week was so big is if you go to three months before that. The US it was reported that the US ran down 15% of its of its tad, T-H-A-A-D air defense missiles. In just 11 days of medium intensity combat defending Israel, Israel ran out of their air defense missiles even faster.

And it was a supply chain issue. We simply can't make them fast enough because we've offshore too much of our industrial base to China. So basically we need to ask China nicely to send us the stuff. And China is keep saying no, because we keep telling them we're gonna use them to point it at them, understandably so.

Uh, and then if you even take a step back from there, over the past three years, NATO supplied intel surveillance, reconnaissance, weapons, tactics, strategies to Ukraine versus Russia. Ukrainians were very good and, and Russia won with China's support. And so when we saw, you know, partly of that was due to the, the na, the nature of war changing.

To, to drones and missiles, partly because NATO got outproduced by Russia because we, again, we had to get out of the industrial production business to support the dollar system over the last 40 years. But I don't, I don't think investors recognize what has just transpired here, which is that, you know, the last three years, and especially last month, the last three months, excuse me, proved to a lot of the world what a lot of people at high levels in finance and in military intelligence had already known, which is that the US defense industrial base has been too hollowed out by the structure of post \$71 hegemony to be able to sustain.

A conventional war versus the bricks for more than just a few weeks. And certainly not without severe casualties. And, and certainly by the way, not without the Fed, essentially buying the entire \$130 trillion bond market with printed money to, to prevent it from crashing which it would on open war with any of these guys.

So we highlighted, you know, in running through those military things. And then in this report, what we really, on of the 12th, what we really highlighted was that a combination of softening US consumer sentiment. Uh, we then highlighted that ultimately there's a fundamental misunderstanding between how much China can outproduce that actually that the United Nations has, has understated Chinese.

Production so that, you know, and consumption and economic, that China's real purchasing, power, parity, economic growth. You know, we highlighted that, you know, there's starting to be an awakening around, hey, these raw materials that we've been, we have for 40 years said all we need are dollars.

And so let them produce everything. There's starting to be a recognition around that by the International Energy Agency, the US administration, the west more broadly. What we point out is that's great and the bond market is the elephant in the room. We can't just run industrial policy to start producing a bunch of this stuff.

For multiple reasons. We don't have the skilled trades. And from a bond market perspective. You know, we could get the skilled trades if we're willing to let inflation really, really rip, but if inflation really, really rips because our debt is already so high from the things we've done, you end up in a position where the you know, the debts, the debt will create more of a problem than it solves.

So basically what the report lays out is that there is no way this works unless we get into some form of yield, curve control, whether that's via the Fed, whether that's via treasury. There's a lot of different ways to try to do that. But that's what has to happen. And I think we're watching in markets a growing recognition of exactly that.

When you talk about gold, you talk about Bitcoin, you talk about stocks, et cetera.

**Erik:** Luke, that was the September 12th missive. And listeners, that one too is linked in your research roundup email. Luke, I do want to respect our standing policy that we never ask you to share your latest current writings with our listeners out of respect for your paying subscribers.

I'm gonna break the rules on this one at least a little bit, and, uh, I certainly understand we cannot share the full September 16th PDF with our listeners. But how about at least giving us a sense of, uh, who is Emmanuel Todd and what's he writing about, and, uh, why is that kind of important in your mind?

Emmanuel

**Luke:** Todd is a French, an French anthropologist who is famous for having written three different geopolitical essays o uh, over the past 50 years. So he spends most of his time studying anthropology, the human of, uh, the study of human, family systems and organizations. The first geopolitical essay he wrote was called the Final Fall.

He published it in 1976, and he predicted the collapse of communism based on the anthropological concepts of declining Russian female fertility rates and rising Russian infant mortality, because infants are the most sensitive indicator of a society that is starting to fail. Uh, he wrote his second, uh, geopolitical essay, and, and of course it goes without saying, you know, he had to wait 14 years or 13 years, but he was right.

He published the final fall in 1976. Soviet Union collapses, 1989. He writes his second geopolitical essay, it was called After the Empire, uh, it was published in 2002, and it was published at a time in which he said or excuse me, in it, he said that the United States would not enjoy an indefinite unipolar era because the world was too big.

The relative size of America is shrinking economically and America will not be able to control this world. And this, this happened at a time, if you recall, where there was, great consensus that the United States was in the very early days of a, of a generational unipolar power moment. And once again, he was right based again on, strictly on anthropological uh, inputs.

And then that brings us to the third, uh, geo geopolitical essay that he has written in his life. Todd is now an, an, an old man, of course, and. He published in January of 2024. What he thinks will be his last

geopolitical essay and which is written in French, still not translated to English.

Interestingly, it's titled *The Defeat of the West*. In the *Defeat of the West*. He states that as a result of many of the same dynamics that led him to predict the collapse of the USSR in 1976, he says, quote, the west has been defeated, industrially and economically citing US infant mortality, which is, uh, above Russian infant mortality, US female fertility rates falling US industrial base, having been hollowed out by offshoring in a manner reminiscent of what happened to the Soviet Union when he wrote his first essay, uh, newly graduating engineer numbers in the US and educational attainment more broadly in the US falling for decades.

Uh, so he wrote that in early 2024 before it was obvious that, that the us uh, or that the, the proxy war in Ukraine was not going for nato. Uh, in April of 2025, he gave a public speech, uh, discussing the defeat of the West, in which he said, we're past a turning point. We're moving from defeat. To dislocation.

And what makes me cautious is my past experience of the moment of the collapse of the Soviet system. I predicted this collapse, but I must admit that when the Soviet system actually collapsed, I was not able to foresee the extent of the dislocation and the level of suffering that this dislocation would bring to Russia.

We read it in, in, it was, he published it publicly at the end of May, we read it then, uh, we kind of set it aside in our cutting room 'cause it didn't feel like it didn't feel like it made sense yet, and we pulled it out as part of the report of September 16th after the events of a few weeks ago. 'Cause it's starting to feel like it makes sense now.

You know, our friend Balaji s Bassan came at this exact same issue. From a completely different angle. In conversation with our friend Peter McCormick, a couple of months ago, in July Balaji came at it from a technologist, but he came to the same conclusion, which is essentially we're past the, the point of no, no return.

China has disintermediated Red America. The internet and Bitcoin have disintermediated blue America, right? They control media and they control the money and, and they're being disintermediated in the same way that China disintermediated Red America with manufacturing in the

military. And so we're, we're getting this dynamic that we're watching every day in our lives now, just, you know.

Everywhere. You know, blue fights with red, red fights with blue, red fights with China, blue fights with Bitcoin and the internet. And, and the US as a nation pulls back because it's getting beaten in its own open, global capitalist competition game that it created and it's getting beaten by the global south, right?

How often do we hear? Chinese, China, China's out producing us. We've gotta get them to like slow down. They're producing so much stuff, they're beating us at our own game. That's highly inflationary over time. Best case in this report, in addition to what Emanuel Todd said. In, in May of this year, uh, or excuse me, Jan, he wrote the book in January, but he said this in, in April and May of this year.

In addition to what Balaji and Peter McCormick said in July of, of this year, we highlighted a Chinese People's Liberation Army General who gave a speech in 2015 to the CCP Senior Leader leadership. He warmed up some of the very same things. Most western investors either never even saw it, or, or, you know, those that did kind of laughed at it.

And, you know, they're not laughing anymore. And you know, I don't wanna take things away from our own, our own folks here. Like the US military was ahead of this more than any of the above. As were some major US industrial titans from ge, Google, Intel. Most Western investors ignored her to laugh.

I'm gonna read a brief passage from top US military leadership in 2011 in Edward Lu's 2012 book. Time to start Thinking quote, senior US military leadership. 2011 said this quote, the window in America's hegemony is closing. We are at a point right now where we still have choices. By 2021, we'll no longer have choices.

The US is way too dependent on its military should sharply reduce its global footprint. By winding up all wars, notably in Afghanistan, and by closing peacetime military bases in Germany, South Korea, the UK and elsewhere. All this is a means to an end, which is to restore America's economic vitality. Our number one goal should be to restore American prosperity.

As such, we recommend the Pentagon shrink its budget by at least 20%. Most of the savings would be spent on civilian priorities such as infrastructure, education, foreign aid. Nobody here thinks the politics in this town are gonna change overnight. All we're saying is that we're in trouble if they don't.

This is not about ideology. This is about understanding where we are as a country. And so the US military's been warned about this for 14 years. Of course, they said, we're gonna be out of time in 2021. And the problem of course, is that 2021 is almost five years in the rear view mirror now. And so when you then layer that with what the Chinese general highlighted, some of the same dynamics.

What an anthropologist who in his speech actually apologizes, said, this is not what I want. This is not what I wanted to come up with this data. The data are the data. You can't lie about the fertility rates and the infant, uh, mortality rates. They are what they are and here's what they're saying.

And I'm sorry, America. And so that's what we highlighted. And I, it didn't make me happy to highlight it. But it is what it is, right? Uh, I don't, uh, it's, it was harder to write. It was harder for me to write than it was for you to read. If you can believe that.

**Erik:** Well, Luke, if I had to write the executive summary of Todd's writings, I could do it in six words. The Luke Gromen moment is upon us, or, or I guess I should probably translate that to your frame of reference, which is the phase of the Luke Gromen. Uh, I don't know. Uh, evolution. We're hitting the acceleration point.

We're going from, from the, happen slowly at first to the then all at once, we know that Emmanuel Todd, who has a pretty darn impressive track record, basically thinks that this is a, uh, a very pivotal moment in history. I wanna know what Luke Gromen thinks. This, uh, moment is going to mean how turbulent could things get in financial markets, and most importantly, for, for this audience, you know, who are gonna be the winners and losers.

Obviously gold has been a big winner here. Uh, I think we're headed into, you know, the, the famous line about inflation is investors always forget that inflation is really, really good for the stock market. In the beginning, at the beginning of the inflation, is that what's driving this

stock market and how long until we get to the bad part of the inflation as far as the stock market, and for that matter, any other markets that come to mind.

**Luke:** Yeah I, you know, I think there's probably some investors that'll listen to this and say, well, oh, you know, never short America. Right. And look, I agree with that. And that's also just a comforting platitude. It's a cop out, it doesn't fit, do anything to fix the problem. And I would also say like, which America?

From 1940 to 1980, what was good for GM was good for America. And from 1980 to 2020, what was good for Goldman Sachs and what's good for the treasury market is good for America. And now what's good for the defense industrial base, the working class, the middle class is, I think we're, I think we're like two years into that is a 40 year stretch of that.

What's being good for America. So, you know, I, I think we're going through this phase change. I think it's an early I think we're early in it and I think it's important to say, look, we're not saying short America what we're saying. Short, the real value of long-term treasuries and short the dollar against gold Bitcoin and stocks because the US' own military saying the US is four years past the we're out of options date.

And so I think what's gonna happen is we are gonna run this economy so hot and I think we're gonna repress the real value of long-term treasuries, so much versus gold and Bitcoin and stocks and look, that will ultimately fix the problem. Uh, it might create some others that we can touch on in a second, but I think it's really important that, you know, recalling COVID, the US got debt, the GDP, you know, after, after the, the Stimulus and everything initially and the economy was shut down, debt to GDP blew out to 130%, if I recall correctly.

And the US got that right back down to 118 or 117% in just a couple of years. Recall that at the peak in COVID, I think the 12 trailing 12 month deficit was running at \$3.3 trillion. They got it down to \$1.4 trillion or so in, I wanna say, like 18 months. And how did they do it? Simple. 8% CPI fed QE with rates at zero into rapidly rising home prices.

50 to 70% year over year gains in the s and p, which gooses consumer spending at goose's tax returns. So all they're gonna have to do is run inflation hotter for longer and the deficit will quickly fall to something

sustainable. US nominal GDP is gonna soar. Uh, we'll be able to reshore wages.

Will do, uh, we will be able to rise. The release valve will be the dollar, the real value of long-term treasuries, I would think that stocks, I think stocks will soar in dollar terms. They've already started to fall in gold and Bitcoin terms and I think that's gonna continue. Same thing with home prices.

You know, since COVID home prices, I think are up like 65% in dollars they're down like 40% in gold terms, down, like 95% in Bitcoin terms since COVID. So now what I'll say about all that is what I just laid out, that they are gonna run this thing so much hotter than anybody realizes. That's the optimistic case, and that's why I say what's normal for the spider's, chaos for the fly.

Look, if, if you're a, you know, if you're a boomer and you got, 80% of your money in, in long-term treasury bonds, like you're gonna go from eating steak to hamburger to, you know, kibble and bits and, and that's, sorry. Um. And to be honest that makes some sense, right? Boomers are getting 70% of all time record tax receipts.

The, the, the elderly boomers in silent generation are getting 70% of all time tax receipts for entitlements. They, you know, we can't raise taxes, so we're gonna inflate 'em. We're gonna inflate 'em. So that's the optimistic case. I hope we can get through this without a real domestic political convulsion.

I am admittedly less confident about that after the assassination of Charlie Kirk, after the assassination of the, um, UnitedHealthcare, CEO Brian Thompson, I, and, and maybe more importantly, the polarized political reaction to those assassinations. That really as shocking as those were, those were like a double dose of shock was the reaction and the polarized reaction.

So. Look, if, if I'm wrong and we can't hold it together as a nation, and I don't know exactly what that means, but if we can't then I'm gonna be dead wrong about stocks going up in this. You're, you're I'll be really right on gold Bitcoin, but I'm be dead wrong on stocks because, you know, I think right now we have a, a moment to try to gather ourselves and, and come together.

But the longer we don't do that, I would again really reiterate, foreigners have \$62 trillion gross and \$27 trillion net in dollar assets. They are so long dollar assets. We saw post Liberation Day. What happens when just a little bit of money leaves the United States stocks down big 10 year treasury yields up big bonds down big dollar, down big, right?

So that was just a little bit of money that moved out of the US Post Liberation Day. If we get an honest to goodness political convulsion here. Wow. That is gonna be that's the fed's worst nightmare. You're gonna get stocks down, big bonds down, big dollar down big. And then what do you do? You raise, you know, you raise rates.

Ugh. You cut rates. Ugh. And, and so that is to me, something I'm watching very closely for signs, hopefully, that we calm things down or if we don't. But, I'm hopeful we can get this, you know, sort of the easy way, right? Which is, I put easy way in quotes on my notes here because it's, look, it's, it's not gonna be easy, but it's the easier way when you make really bad, long-term decisions for 40 straight years.

Sooner or later you'll run out of room to kick the can. And we're there, right? For a number of different reasons. We're there. I think ultimately what it means for markets is, I think inflation's gonna run so much hotter than consensus thinks. I think it's entirely possible that it's reported as sort of slightly elevated and, frighteningly the release valve, if they do that will be more domestic political tensions.

And so, uh, I, I think. I think we're in for a bit of a, a bumpy stretch here within sort of this, this fourth turning dynamic.

**Erik:** Luke, as you've been describing all of this, it's basically forming an analog in my mind that I'd like to run past you. And this pertains specifically to this question of the state transition from, you know, slowly at first until suddenly all at once.

And I guess I, I'll draw an analogy to the pandemic. Back into the end of 2019, there were plenty of people on the internet that, you know, know about these things that were starting to talk about something's going on in China. The rest of us didn't understand that significance and couldn't. Possibly be expected to.

Then there's a state transition that happens next where, okay. Jim Bianco was probably the first guy in finance to really understand the

scope of this, where other, other people in other fields. But right around the end of January, 2020, it was, uh, January 30th, 2020 that we dropped everything and, and re-planned macro voices in order to get Dr.

Chris Martinson on to talk. He was one of the people who had been talking about it since 2019. But. It wasn't really any kind of wake up to what I'll call the second tier of people. You know, at first it was just the Luke Gromen writing about this stuff 10 years ago. That's like Martinson writing about the pandemic in 2019.

Nobody paid attention, nobody cared. Nobody got it 'cause it, it just wasn't registering yet. Then in somewhere around the beginning of February, there was this middle period where it wasn't just one or two guys, it's like 20 guys now it's the smartest guys in finance like Bianco that are all over it. But they're being ridiculed left, right, and center as alarmists.

You know, I was, I had all kinds of hate mail for doing that, that show on January 30th saying that we were irresponsible, fear mongers and you know, yada yada yada. And then that went on for a few months and one day, snap. Everybody knew that it's a global pandemic. Nobody questioned it. And it's like, oh my gosh, everybody's panicking.

I feel like this US dollar secular decline thing, I think we went from the only people like Luca writing about it to the 20 guys, like as smart as Jim Bianco have figured it all out now and I don't think we've yet gotten to that sudden everybody gets it moment. Does that resonate for you? Am I on the right track and well, what could happen when we get to that moment?

**Luke:** No, I think that, I think it's exactly right. And the reason I think people aren't there yet is it's, it's a little bit cross discipline, right? When you're in our, our business, you're focused on markets and that it, and, and, doing what I do, uh, owning my own business, I have the luxury to, write about what I think is interesting.

And so I have a bit of a cross-disciplinary approach that I think is somewhat unique. And the reason I bring that up for this is. I think there's still a lot of, of, like, I, I think we're no longer in the denial stage of, of sort of, you know, China 2025, you know, when they rolled that out, right?

People are like, oh, ha ha ha. Like, no one's laughing about that anymore. They're not in denial. Um, they're a little bit angry still, right? Oh, they're cheating and they're, they're overproducing and they're manipulating their currency and like, boohoo you know, compete. I think what we're really in this bargaining stage, and that's, to your point, like there's a recognition, but it's not, the bargaining stage is still around.

Well, we can get a, we can get the Europeans and we can sort of block out China and the bricks and, and, and, and it we're, we're only looking at it from one side and nobody is really doing, I. Sort of the deep look of supply chains to go, okay, break your supply chains down, break your trade balances down, and see how much of it ever touched China.

And if they, at some point they're gonna do that and they're gonna go oh my God. Oh my God. Like there that, and that will be sort of that moment. And I, the sense I get is, the old, the old famous, uh, saw, right? The pro amateurs study tactics, professional study logistics, you know, the bargaining stage was taught talking tactics.

Right. You know, you know, BeIN's talking tactics around, well, we just gotta get this group and we're gonna isolate China. The logistics are the guys within the US military and intelligence communities. And I, I just get the sense that they've done the digging on the supply chains and like.

They know we don't have the leverage. They know, and whenever that common knowledge goes from sort of, you know, the, the special knowledge, like you were talking about, sort of the isolated, you know, 20 guys to Oh my gosh. Yeah, then I think it's gonna, things are gonna happen really fast because, you know, to me the conclusion is just so crystal clear.

Look, we cannot win this trade war. The treasury market will blow up first every time. You can game it out however many times you want it. In the end, the only way it works as if the Fed or the treasury basically buy much of the bond market and, and yield curve control it, and. Historically when we've gotten into these tense situations, as the military warned about in 2012, right, we rely too much on our military historically, you know, geopolitics, geopolitics in the, in, in, since two thou, from the year since the year 2000, has been like, don't do anything to mess with the rules based global order.

'cause the American military will show up and kick your head in. That's geopolitics since the year 2000 in, in, in 10 seconds. Whoa, US military critical components are now made in China. So that too, there's still denial are, you know, some, some anger not even really bargaining yet. When you put those two cross discipline things together, which is our debt's too high, our supply chains are all touching China, even if we want to pretend that they don't, and our military critical components can't, we don't have the industrial base anymore.

Those three things together lead you to a conclusion either. We're gonna go to nuclear war and there's no winners there. I think it's uninvestible. I hope that's not how it's gonna go, but let's set that aside. Or we're gonna run this super hot and the market's gonna wake up and go, oh my God, I can't own bonds.

I can't own long-term bonds. I need to own gold. I need to own stocks. I need to own Bitcoin. I need to own, anything but bonds. Uh, anything but dollars. And, and, and that's not even and anything but dollar's. Not even really fair. Right? Anything but bonds. Uh, because I think dollar stocks, I think you're gonna be fine.

I don't know when that moment's coming, but like, I don't think it's years away anymore. I think we're, I think that's, you know. I think it's six to nine months away because then I can overlay that with the fiscal situation and look like I can overlay that, you know, the fiscal situation. We're right now with receipts at all time highs, we have true interest expense, which is interest plus entitlements, plus veterans Affairs.

It's a hundred percent of receipts and receipts are highly sensitive to the stock market. So that like we're, we're to the wall there, we're seeing the US, economy on the consumer side actually slow, which is really weird because, and it's really bifurcating, right? The bottom 50% are really suffering and the top 10% are, you know, it's, you know, party on Wayne, party on Garth, and.

That then reverberates into the geopolitical side, right? You're starting to see people writing articles like what is going on in America after the last two, three weeks? And so it could be a geopolitical trigger, I don't know. Or not a geopolitical, but a domestic political trigger. I don't know. Or simply just a, a spooking of foreign investors, right?

We have so much foreign money here. 62 trillion gross, 27 trillion net. If they start to get spooked about the domestic political situation, do they take five, 10% of their money home? Then what happens? Uh, so yeah, I think we are like right on the cusp of exactly what you described. And there can be domestic political, there could be market, there could be trade, there could be geopolitical, there could be any number of things, uh, that could spark it.

**Erik:** Luke, I was fascinated by your mention of military and digging into supply chains and so forth. I wanna share a quick story with you. I was recently surprised to be invited to speak at a supply chain conference. So I, do a zoom call with the organizers. I say, guys, I'm really flattered, you know, thank you.

But you've misunderstood. I'm not a supply chain expert. I really don't know very much about it at all. I'm not qualified to speak at that kind of conference. But boy, I would love an invitation because I'm very curious to learn more about the people who do the things that you described, the people who are analyzing things like, Hey, we're about to start a war with China, but we get, we're completely dependent on them for rare earth elements and for almost all of our medications and for all these other things.

I would really be fascinated to attend that and learn from the experts who is analyzing these things. 'cause I don't know that much about it. And they just looked at me like, Eric, you don't get it. We do know exactly what your qualifications are. The answer is nobody that goes to our supply chain conference is looking at any of those things, and we want you to come and point out that they should be.

And I'm like, wait a minute, or what? Supply chain people are not focused on that. Well, I gotta believe they are in the military, but, you know, that would be classified and so forth. It sounds to me like most of the people in the sup in the commercial supply chain industry are not really focused on the things that you're talking about.

And boy, I I agree with you that they should be,

**Luke:** I mean, you know, it's one of these things like I, I have a good friend who work for a, a major global international freight forwarder. And so someone in that seat is gonna know, and you know, when you talk to folks like that it's.

What, what they highlight are some of just, you know, what I would highlight are some of the, like seven or eight of the 10 biggest container ports in the world are in China. And it took them 30 years working at the fastest pace in human history to build them. And then there's a whole scale and network around engineers and factories and roads and infrastructure.

And it's simply world class across the board. And they've, again, 30 years working the hardest, fastest pace, in, in human history. And that's kind of where I, I say sort of like the bargaining side, right? When I hear those things I say, well, we're gonna move it all to Vietnam. Well, sure, you're gonna move some to Vietnam, you can move some to India.

You can't move it all. Well, why not? Because literally you can't fit it. And, and even if you could fit it which you can't, it's gonna take you, do you think. The Indians are go, are gonna work faster than the Chinese did. Like I remember being an investor in a, in a Chinese spa, the Indian management team come in, they go, Luke, you have to understand in India, you know, the British invented administrative or admin, uh, um, administrative stuff, and the, uh, the Indians perfected it.

Like it is just, you know, it takes longer to get stuff done there. So you're, you're like, best case you're talking, if you did it as fast as the Chinese, you're talking about 30 years isn't, you're not gonna do it that fast. And even if you could fit it, which you can't, and even if you could done in half the time the Chinese, which is still put us 15 years, which you can't, you still have the elephant in the room, which is the global bond market, which is to say like, all this stuff is in China and optimized the way it is for to, to keep inflation down, to support the bond market.

That's why we did this. That's why we did this at the end of the day. So if you want to do it, it's there. It's going to be inflationary and probably wildly so, which wouldn't be a problem except the debt levels in the west in particular are so high that, 10, 20, 30 basis points from where we are today.

Maybe in some cases, you know, the US maybe 60 basis points on the tenure starts to trigger a debt death spiral. Rates up, stocks down and that we've seen happen multiple times in the last five years. Japan, same story, Europe, same story, uk. So that's where I kind of look at this, you know, and I think it's a great summary you highlight of just like.

There's still this bargaining phase of, well, we just need to work really hard and we can move stuff out of China. We can cut China off. You know, like, you know now without a frigging 83 DeLorean and a flux capacitor that goes 88 and you go back in time, 40 years and you undo the stupid stuff, the short term focused corporate profit maximizing stuff that you did to break unions, uh, and support the bond market for 40 years under the guise of neoliberal economics.

You do that like, great, hey, if you've got a time machine, let me know. We can have this thing fixed, you know, six months. But failing that there's like, it can't happen. And so I think once we go from bargaining to the depression of like, oh God, then you're gonna realize like, okay, well they're either gonna let everything collapse, they're not gonna do that.

They're gonna print money. And they can't go to war, right? That's another way out. They can't do that conventional. Hopefully they're not gonna go nuclear. They're, they're gonna run this thing so hot. They have to, that's the only choice. And I think it, I guess I would just finish by saying like, I think the whole discussion around Fed independence and Steven Myron, I think it's totally off base with, like most US investors are playing by the old rules.

You know, I've been doing this 30, 32 years. Most people that have been doing it as long as I have, they're playing by the wrong rules. They're playing by the old rules. They don't understand like, is is inflation to how should they, it doesn't matter. The choice is bring this stuff back and blow up the bond market on a real basis or don't and lose, like, those are your choice.

This whole debate around should the Fed cut, should they raise, are they independent? Are they not? It's noise. It's noise. The variant perception is they're doing to the Fed what they are doing. Because they have to, because of what we just laid on the supply chain front. The bond market has to be anesthetized to, to, for the US to get back on its, you know, on the right track.

Again,

**Erik:** Luke, I can't thank you enough for another brilliant interview. It comes as no surprise that you're right at the top of our listener rankings for top, uh, guest of all time. In terms of total downloads, frankly, uh, I think you're writing in your Tree rings report pretty much speaks for itself.

We've got two examples of that linked in the research roundup email from September 9th and September 12th.

Uh, for people who wanna find out more about what you do or are interested in subscribing and so forth, tell us what you do at Forest for the Trees. How do people sign up?

**Luke:** Sure, absolutely. You can find out more about what we do@ffttl.com or for both for institutional and mass market products. And, uh, uh, on x at Luke Gromen, all one word.

**Erik:** And don't miss the two samples that are linked in the research roundup. Email Patrick Serna and I will be back as Macro Voices continues right here@macrovoices.com.