Joe (00:00)
So James, I remember thinking after the global financial crisis and the stimulus started coming in and Obama was spending all this money. I remember thinking that was going to cause some serious inflation and it kind of didn't. So the first time I really experienced any inflation in my life was the 2022 when it hit 9 % after the pandemic and all that pandemic spending. And then it came back down.

Do you have an idea of when we should start to expect this sustained higher inflation that we've talked about so much from the Federal Reserve's printing or other factors?

James (00:38)
Well, first of all, I have to very respectfully disagree with you, my friend. ~ inflation, remember, there's a couple of different types of inflation. And when you talk about inflation, what you really talk about is sort of retail price inflation. But there's a lot of different types of inflation. know, the retail price inflation is when you go to the grocery store and you see, you you're just shocked when you see the price of eggs, or you fill up your car and go, my God, that's insane.

And all these different things that we see, that sort of shock price inflation that we pay in our regular lives. But there is also, there's plenty of other types of inflation. You can look at it sort of on wholesale prices and a lot of businesses that have to eat those costs, wage inflation. Another one, one of the ones that we really saw going back to those early days after the financial crisis, when they started printing lots and lots and lots of money. And again, I'm gonna say print money throughout this as we often say, print money.

But when I say print money, they're not actually physically printing money. The Federal Reserve doesn't actually have control of the printing press. What they're actually doing is something they call quantitative easing, where through digital means, they expand the money supply. We call it printing money because it's just easier to visualize that way, but they're expanding the money supply. And it creates inflation, invariably creates inflation.

There's a different type of inflation. If you go back to 2012, 2013, 2015, that whole era, there are different rounds of quantitative means, like QE1, QE2, operation twist, all sorts of things. And what we saw was a type of inflation that a lot of people would think, well, that's actually, that doesn't sound so bad. And that's asset price inflation. Asset price inflation is when the prices of assets get frankly, ridiculously unsustainably high. And you see it in the numbers, you see it in the data.

And you also see it in these kind of bizarro anecdotal stories. And so let's think about the stock market because that's something that a lot of people are familiar with. You see, during that same period, we saw stock prices rise rather dramatically. And it wasn't necessarily because earnings were going through the roof and, you know, companies were so healthy, etc.

It's because simply that people were willing to pay more money for every dollar of a company's profits, or every dollar of a company's net assets or every dollar of a company's ∼ book value or sales or whatever, investors were willing to pay more. And so we could see this in the ratios. We saw a rise in, for example, the price earnings ratio that people were paying for ∼ companies or the price to book ratio or these sorts of things. We saw these things rise rather dramatically, way, way, way above their historic means.

Then we also saw these kind of ridiculous anecdotal stories about people you know, I mean, we saw this during the during the 2021 boom as well. You remember the story about the guy paying was like hundred and fifty thousand dollars for a banana duct tape to the wall. Supposedly it was artwork. I mean, there were a lot of those stories even back in, you know, 2014, 2015 as well. You know, outrageous prices that people were paying for things that were supposedly art or collectibles, whatever really started going through the roof.

A lot of people like, it's the same thing you see with real estate prices, real estate prices rising, median home prices rising. And so some people feel like, asset price inflation is pretty good. And I would agree, I mean, as somebody that owns assets, you kind of like asset price inflation because it makes you think it makes you wealthier, at least on paper.

But one of the things that that does, asset price inflation actually creates a lot of, in fairness, it does create a lot of social consequences because it was that asset price inflation boom where you start to see a larger and larger larger gap between essentially the haves and the have nots. People that own assets do really well during asset price inflation because you don't actually have to do anything. You just sort of sit on your ass and watch your stock portfolio get more and more more inflated without actually having, you don't actually have to be good at what you're doing. You just sort of sit back and watch your wealth grow, versus other people.

Joe (04:42)
And this is the same thing with houses as well, why the housing market has gone crazy and all the boomers are sitting on ∼ double the price they bought it for in the 80s or whatever.

James (04:44)
Exactly. Right.

Yeah, multi multi million dollar houses or whatever. Yeah, I mean, people were buying houses for, whatever. mean, $30,000, you know, whatever back in the day. And now those houses are worth like $3 million. And yeah, I mean, there a lot of people going like, hey, come on, get off your ass, Gen Z, you know, and it's like, dude, it's like, it's different circumstances.

It's different circumstances for sure. So I think, look, the I don't think it's a coincidence that in 2016, you had, if you think back to this period, right, 2016, you remember, I mean, it seems like ages and ages ago, Obama was finishing his second term. had a presidential election and who was the most popular guy in that there was a lot of people running for the Republican nomination. The most popular guy was Donald Trump.

And it's not hard to sort of understand that now because this is a guy who was just a wrecking ball who was coming from the outside. for the Democrats, do you remember who was the most sort of popular guy? Not the person that won the nomination or stole the nomination for the Democrats, but the guy was actually the most popular person in the 2016 Democratic primary, Bernie Sanders. And if you really distill their message, Donald Trump, and Bernie Sanders in 2016 were saying exactly the same thing. Their message was exactly the same. They were both of them saying, you're getting fucked by the system. And they just, were coming at it from two different perspectives, but Trump and Sanders were actually saying the same thing. They both, and that message resonated. That's why they were the most popular people in that, in that election cycle, because everybody, all the constituents, voters could feel it.

They're like, something's wrong here because it's again, it's just this massive, it's mean, the haves and have nots, the, you know, the wealth gap, all these certain things, it just expanded so much, because you had people that came into that, who had money. And if you had money, and you invested it, you did really, really, really well. And if you came into that period, and you didn't have money to invest, you just fell further and further behind.

And so that big, what they, you know, we say like the hollowing out of the middle class, that really started in earnest during that period, during, the Obama years, when for that entire eight year period, the Federal Reserve was printing massive quantities of money, QE1, QE2, Operation Twist, all this over and over over again. And that massive quantity of money went into, it created inflation, but it was a kind of inflation that made certain people extremely wealthy or other people that were well off and propelled them into becoming wealthy versus other people that didn't have that money just sort of fell behind.

And so now all of you have all these people now, so many more people that have money because what? They had a little bit of money before, they put it in the stock market, and the Federal Reserve just inflated the value of the stock market for them. So now they have all this money. now they can, great. Now I can take my stocks. I don't even have to sell my stocks because there's so much money in the financial system now. I can borrow from my stock portfolio and go and buy some real estate now.

And I can afford to pay more for that real estate. So I'm inflating the price of the real estate which now if you don't have that money, you don't have that money in the stock market, you're falling farther and farther behind. Now you've got to come up with 20 % down payment on a real estate price is going higher and higher and higher. mean, that's what creates a system where people feel like, man, I'm not getting ahead. I'm just not getting ahead. That's why Bernie Sanders resonated so much with people because he had all these people going, ∼ not only am I not getting ahead, I'm falling behind.

And Bernie came at it from, course, the socialist perspective going, we got to nationalize everything. And we got to national health care, national this and free university and all this kind of stuff. And that resonated. Trump came at it from a completely different perspective. But his message is the same. He's like, the middle class is getting hollowed out because we're selling our soul to China and we're selling our soul to all these foreign countries and we're hollowing out the middle class. Trump tamped into that as well in 2016. It was the same message.

And the reason why that message resonated is because it was true, because you had so many people, tens of millions of people in the middle class that felt like they were falling behind as a result of the inflation that the government to this day will pretend did not exist. But it did exist. It was just asset price inflation, not retail price inflation. The price of eggs didn't go through the roof in 2013, right? But stocks did. I mean, a lot of assets did.

And that created a wealth gap and that wealth gap drove a lot of social issues, which are responsible for, think in large part, the ideological polarization in the United States. Then what happened? Phase two came in, you know, 2020, 2021, where now the Fed came in and, during the, during the GFC in 2008, over the next couple of years, they increased their balance sheet from 850 billion to about four and a half trillion.

Then they went from four and a half trillion to nine trillion in the pandemic. So they printed, it was actually a little bit less than four because they tapered down their balance sheet little bit. So they printed about $5 trillion during the pandemic.

Joe (10:12)
And that was in a shorter time frame than the two or three trillion that they had done in the wake of 2008.

James (10:18)
Yes, sir. Absolutely right.

So going into the financial crisis, basically when Lehman collapsed in September 2008, the Fed had $850 billion on its balance sheet and total assets. It took a couple of years for them to get to $4.5 trillion. So to print that basically a little bit less than $4 trillion, $3.7 trillion, it took them a couple of years.

For the Fed to print $5 trillion during the pandemic was in about a year, maybe year and a half, depending on how you look at it.

So it was a lot of money and it was just a canon. It was a canon of cash just being shot into the financial system. And that had a major impact. And the reason that became inflationary from a retail price perspective, it's not hard. It doesn't take a rocket. You don't need a PhD in economics to understand this. In fact, it's probably better that you not have a PhD in economics. So you don't have those blinders on.

The reality is that you think about the pandemic? What do they do? They locked everybody down. They said, stay at home, cower in fear in your basement. so people stopped going to work. So the production of goods and services in the United States, i.e. the supply of goods and services went down. And then they went and started handing out free money to anybody. Here's your stimulus check. Here's your other stimulus check. Here's the bailout fund. Here's the PPP. We just keep inventing new ways to give people free money.

So now people are awash with free money. that obviously they're going to spend it. So demand goes up and yet supply is down because people are locked in their basement. not going to work. Lower supply, increased demand. Duh. Like any high school economic student is going to know that's going to result in an increase in prices. So we saw ∼ an increase in that ∼ retail price inflation.

Joe (12:07)
So actually next time, as long as they don't shut down the economy again, could we expect just an increase in the inflation as related to assets and homes and perhaps not a retail price inflation?

James (12:19)
I don't think so. ~ I don't think so. think you're probably going to see a pretty healthy mix of both. And the reason why is because the volume of money that we're talking about is just so substantial. In the past, the Fed printed $3.7 trillion during the 2008-2009 financial crisis. And it took them a couple of years to do that. During the pandemic, they printed $5 trillion in about, again, let's say 18 months.

What we're talking about now, you know, and we kind of label this, we call it crisis 2033. And the reason why, why 2033? Well, because 2033 is the year that social security's major trust funds essentially run out of money. They become in social security parlance, they say fully depleted. And we talked about this before.

Ever since social security was created back in the Roosevelt era, essentially, there's been people that pay into the system and there've been beneficiaries that take money out of the system. And for years, for decades, there were more people paying into the system than beneficiaries taking money out of the system. So that surplus was essentially put into a trust fund and that trust fund over time just built up like like a savings account essentially. And that savings account became literally a couple of trillion dollars over a period of decades. Well, some years ago now, not that long ago, but a few years back, it reversed.

Now there are more people taking money out of the system than were people paying into the system. So now the program is running at an annual deficit. So what do do when you're running at an annual deficit? You start bleeding down your savings little by little. And the point is that by 2033, Social Security trustees are saying, all this like vast pool of savings that we built up, it's going to be completely gone, fully depleted. And they're circling a date on the calendar in early 2033.

When that's going to happen. And most likely, it's going to be before that because every year that goes by, they tend to like revise the estimates. So my guess is that next year, the next couple of years, I'll probably say, oh, now it's 2032. Now it's 2031. So it could be before 2033. But for now, let's say 2033.

And what they're saying is like, hey, when that happens, we'll have to essentially implement an immediate cut to benefits on the order of around 25% of benefit cuts, which is, I mean, that's political suicide. There's no politician that wants to allow that to happen. So instead, what are they going to do? They're going to bail out social security. How much is that going to cost? Well, that's going to be a lot of money every single year, or if they want to come in and just do it even at just a temporary bailout, that's going to be like a couple trillion dollars. Where are they going to get that money from? You know, and this is the big problem.

This is, oh, by the way, also at that time in 2033, the national debt the United States is going to be north of $50 trillion. It's $36 trillion a day going on $37 trillion. It's going to be $50 trillion in eight years. This is not my math. This is the government's own forecast. And it's probably going to be a lot higher than that because the forecasts are always wrong. Right. And so who's going to give them the money? Somebody's going to have to keep loaning the money year after year. It's like, oh, you got a $2 trillion deficit, $3 trillion deficit. Now you got, now we've got a couple of trillion dollars to bail out social security.

So at a certain point, they're going to have to find more and more more lenders. The problem for the, for the federal government, for the treasury department is their lenders are actually getting fewer. And we talked about this a lot is because foreign governments and central banks, foreign investors in general are backing away from treasuries. They're looking at the fiscal trajectory of the U S government and saying, no, ∼ I'm done. I don't want to, this looks like a train wreck in slow motion. top of that, you guys are constantly wagging your fingers at us.

You're threatening us with tariffs. You're threatening us with sanctions. You're threatening all this crazy stuff. I don't want to deal with it anymore. why, you know, if I'm China, you know, we talked about this before, like, I mean, it wasn't that long ago. mean, China had like $1.2, $1.3 trillion worth of U.S. government bonds. Now they're down to like $700 some odd billion.

I mean, their treasury holdings have declined dramatically just in a couple of years because the Chinese see this and go, I don't want to be part of this fiscal train wreck. I don't want to be part of these consequences. I don't want you to freeze my account. I want you to do any of these things. And so you see a lot of governments that are backing away from treasuries. so if foreign governments and central banks, which traditionally have been one of the biggest lenders to the US government and they're backing away, where's the US government going to get the money from? From the Fed.

The Fed's going to have to basically print that money, more rounds of quantitative easing. And so this is what we're talking about. this, you know, an answer to your question is maybe next time it'll just be asset price inflation and not retail price inflation. Well, I would caution you on that. Number one is that asset price inflation creates a lot of bizarre consequences that, you know, it's hard to even anticipate and contemplate what those are, but we're living through that.

The social discord and the ideological issues, all that stuff is a straight line from the asset price inflation post-GFC and where we are today. But more importantly, it's the quantity that the Federal Reserve is going to have to print because they're not going to be able to rely on foreigners. After the GFC, the Fed was able to print lots of money and they could rely on foreigners to buy all these government bonds. During the pandemic, the Fed was able to print trillions of dollars. And who was buying all these government bonds? It was China, it was Japan, it was India. was all these places that were buying US government bonds during the pandemic.

Joe (17:59)
So that money was essentially moving outside of the US, so it wasn't ∼ competing for the products and services in the US markets. Is that why that wasn't as...

James (17:59)
Right?

Correct. was a lot of trillions. Trillions of dollars was being held outside of the United States during the pandemic. So that's what essentially creates inflation. That's a great point. What's creating inflation is when the Fed essentially prints money and that money stays in the economy. That's where you'll find inflation is when that money comes into the US economy. When they print money and some of that stays in the economy, but the government's issuing all this debt and it's foreigners that are buying a lot of that.

You don't have as much money that's staying in the US economy because foreigners are holding on to this debt. Sure, you're going to get a lot of asset price inflation and you have central bankers, it's like bond prices go up. Talk about asset price inflation. mean, when bond prices hit their maximum historic highs ever. And it wasn't just in the United States. Also, it was all over the world. That's one of the things it was like. If it was just the United States printing money and nobody else is printing money, you'd probably see a lot more inflation in the US.

Europe was doing it. China was doing it. mean, everybody was doing it. Everybody was doing it. you had, know, stock prices went to all time highs, bond prices went to all time highs, real estate prices went to all time highs. was all of it asset price inflation.

But we're talking about the situation when we think to 2033, the Fed might be in a position where instead of having to print a couple trillion dollars over a few years, we're talking about $5 trillion, $10 trillion over, you know, a 12 to 24 month period, $20 trillion over a four or five year period. mean, the amount of money we're talking about is just astonishing. It's hard to even predict what that'll be because we don't know what interest rates will be at that point. But of course, the Fed has a big role to play in that as well in trying to keep interest rates down. this is why I think it's going to be, we'll probably see some asset price inflation.

I think we'll probably see a lot of retail price inflation simply because of the the sheer volume of money that the Fed is going to have to print once you get to that 2033. And by the way, 2033, think is sort of like at the extreme end of it. That's kind of the best case scenario in terms of this inflation horizon is 2033. But realistically, I think it could come a lot sooner.

Joe (20:21)
So you're saying it almost certainly will definitely hit by 2033. What would cause it to come a lot sooner than then?

James (20:27)
Well, it's all about the Fed, right? So if the Fed creates a lot of money a lot sooner than 2033, then we'll see, you know, we could see a lot of inflation well in advance of 2033, right? And so one of the things that is really kind of a giveaway right now is the fact that the Treasury Department, the Treasury Secretary is very openly talking about this. The Treasury Secretary of the United States is saying, you know what we're going to do? We're going to, we're just going to kind of wait it out, right?

They look at bond yields right now. And bond yields in the United States are high. mean, they're historically still low, but relative to what they've been over the past few years, they're quite high. mean, remember, like, it wasn't that long ago, was four years ago, the 10-year US government treasury note was like 0.4%. It was like 40 basis points. It was nothing. It was nothing. They were selling two-year debt for like three basis points. I mean, was a joke.

Now, you're seeing, I mean, we're seeing 10 year, 30 year, and the fours have been close to 5%. That relative to like 30 basis points a couple of years ago, that's very high. That's very, very high. And so the reason this is a big deal for the Treasury Department is because the government has to pay interest on this. So as those bond yields go up, it increases the federal government's annual interest bill. And we talked a lot about that.

This is the reason why this is happening. Bond yields have gone up. If you go back during the pandemic, the government's average interest rate was like 1%. This is like across the entire national debt, they're paying about 1 % per year. And the debt was high. mean, it was like going into the pandemic, was probably what, $25 billion, something like that. mean, so 1%, they're paying like $250 billion a year.

Okay, big deal. can afford that. mean, the debt was high, but hey, the interest payments on it were relatively low, no big deal. But then 1 % becomes 2%, 3%, 4%. So like the debt keeps going up, but the average interest rate keeps going up as well. So now the average interest, the total interest they're paying has gone up from couple hundred, $200 billion a few years ago. Now it's over a trillion dollars a year.

Joe (22:46)
which is about a fifth of the entire tax revenue that they collect, right? Just to put that in perspective.

James (22:49)
It's like 22, 23 % of tax revenue.

Yeah. It's like 22 cents out of every dollar collected in tax revenue go just to pay off interest, just interest on the national debt. Then you got to deal with social security. Then you got to deal with Medicare. By the time you finish, by the time you finish basically social security, Medicare and interest on the debt, you've consumed all of your tax revenue and you still have to pay the military, the light bill at the White House, the fuel for Air Force One.

National parks, homeland security, your border wall, all these things, know, money for Ukraine, whatever it is, there's all this stuff. They have to go into debt to pay for all of it because interest, social security and Medicare have consumed all of tax revenue. That's the situation they're in. in that, and that's, that's where they are today. And what's the trend?

Well, social securities, you know, annual costs is going up because there's more and more retirees, which means Medicare's costs are going up because there's more and more retirees and interest on the debt is going up because the debt keeps getting higher and interest rates also keep rising. So that total annual interest bill continues to rise. So you're going to see the point over the next year or two where you're going to see interest, social security and Medicare, just those three alone already exceed annual tax revenue. So they're going into debt before they even finished paying interest.

Social Security and Medicare, right? And yet nobody wants to cut spending. Nobody wants to reform Social Security. Nobody wants to reform Medicare. This is why this is a train wreck. And anybody paying attention to this has got to be like, my God, what are these people doing? And yet they, you know, one big, beautiful bill, like, let's have a $2 trillion deficit this year. Let's add more money to the deficit over the next 10 years.

You don't have 10 years. Your best case scenario is eight years. you know, there's a very good chance that it's gonna be a lot sooner than that as well.

Joe (24:46)
And this is why the White House wants the Federal Reserve to cut interest rates as well to save the government that money on interest.

James (24:54)
yeah. Yeah. Big time. the, they're, you, you hear this like straight out of the white house. mean, the president is, has been just blasting Jerome Powell. And again, I have to say this every time we talk about this, I am no fan of Jerome Powell. Okay. I'm not the president of the Jerome Powell fan club by any stretch. Okay. I'm, I'm not like, I don't, I'm not, I don't, I don't love the fed.

I don't, I mean, I always say this every time I talk about these guys two days before one of the biggest banking crises, mean, easily the biggest banking crisis in the United States since the GFC. Two days before that, when Silicon Valley Bank went bust, Signature Bank went bust, all that, I remember a couple of years ago, was 2023, April, 2023, May or April or May 2023. Two days before that happened, Jerome Powell goes up in front of Congress and said, oh yeah, no, there's no problems here. Nothing in the data suggests to me that we've tightened too much, right? And so, and...

Two days later, the Fed had all the data because the Federal Reserve is one of the key banking regulators actually considered a bank supervisor. So every bank in the country basically has to, every federally regulated bank has to submit all their financial statements, their audits. mean, they do bank stress tests that are headed up by the Federal Reserve, all this stuff. mean, like the Fed is one of the major bank supervisors. So you have the head of the Fed saying, no, no, no, we don't see any problem in the banking system.

Two days later, major banking crisis. mean, it's like, it's an astonishing level of incompetence. I'd like, how did you not see that coming? How did you not see that coming? They were literally giving you the data saying, hey, on a market to market basis, we're insolvent. Our unrealized losses will completely wipe us out. And the Fed didn't notice. The Fed didn't see that. It's crazy. They completely missed inflation for, I mean, all through 2021, 2020, inflation. What do you talk about inflation? I mean, it was like the way the White House is treating the Epstein thing.

Why you're talking about inflation? Are you crazy? I mean, they were gas-lighting people. And I mean, they were just completely asleep at the wheel. So I am no fan of the Fed. However, I don't think it's in particularly good taste for the White House to essentially try to commandeer the monetary policy of their country. This is the stuff you see in the Banana Republics.

This is stuff you saw in Argentina, for example, when that corrupt criminal Christina Kirchner, that's a lot of coz, she put her central banker in jail because she's like, you need to cut rates, you need to print money, you need to monetize the debt, and he wouldn't do it. She put this guy in jail. I mean, this is the kind of stuff that you see when you see the executive branches or dictators or whatever try to take over the central bank to give them power of the printing press, to give them control of the money supply.

This is stuff you see in like just third world dictatorships, men. so this is like the United States is supposed to be an independent Federal Reserve. And look, we can have a discussion all day long about whether or not that's a good idea. And again, I think the Fed since inception has basically been a total disaster. The Fed's been a disaster since 1913. It's been a 112 year track record of just one crisis after another. Look at the value of the dollar.

Joe (28:09)
look at the value of the dollar over the time that they've been in charge of it.

James (28:13)
I mean, the right exactly the feds mandate is to maintain it. You know, they're part of their dual mandate is to maintain a sound currency during which they're over which their track record shows a 98 99 % decline in the value of the currency bang up job Federal Reserve.

Joe (28:23)
And their stated goal is for it to decline. Yeah, I mean, their stated goal, is for it to decline by 2 % a year. Why would that ever be a good?

James (28:32)
Well, I mean, that's a whole different thing. I mean, they invented that like back in the 60s and 70s. And what it started off as was saying we want inflation to be no higher than 2%. And somehow it just morphed into, well, yeah, 2 % is what we want. I was like, wait a minute. That's not, it doesn't say anything. If you read the Fed charter in 1913, it doesn't say anything about we need to maintain 2 % inflation. No, no, the standard was zero. The standard was zero.

Joe (28:43)
And now they're celebrating tubers. Well, back then it was linked to gold, so.

James (29:02)
So ~ the idea that the Fed is like some kind of sacrosanct, untouchable institution, that's not what I'm saying. ~ However, I think it's an even worse idea to hand over control of the money supply to the executive branch or to Congress, by the way. I mean, to me, it's just a terrible, terrible idea. Because I think you end up with even worse consequences.

And what the, so what, what is, what is the Treasury Department trying to do? They're looking at this going, my God, we got a trillion dollars a year just to pay interest. We got to do something about that. So we want interest rates to come down. So the white house and the Treasury Department, they've begun interest rates come down, come on Fed, need to cut rates. And they've been putting a lot of pressure on the Fed to cut rates. Well, you got to understand something. The Fed, this isn't the wizard of Oz here, right?

They can't just, you know, clap their hands and make it all whatever. mean, this is, ~ you know, in that, in that, in that great line actually from the movie, pay no attention to the man behind the curtain, you know, in some respects, that part is the Wizard of Oz because it turns out it's just some dude, it's no mythical, powerful, omnipotent creature here. It's just a bunch of human beings that are there trying to pull the levers in this ultimately super complex machine of the United States economy and act like they're just going to get it right 100 % of the time. That's ludicrous. It's completely ludicrous.

But the thing that they don't have the ability to just snap their finger and say, let the interest rate be X and the interest rate was X and the Fed chairman looked upon it and said it was good. You know, that's not how it works, right? The Fed has limited policy tools and those limited policy tools in general have more influence over short-term rates versus long-term rates. What do I mean by short-term rates? I'm talking about when, and this is with respect to US government bonds, treasury securities, the really short term treasuries, 20 day T bills, 90 day T bills, six month T bills, 12 month T bills. ~ The nomenclature with treasuries basically anything that's like a year or less is considered a bill, treasury bill. Anything that's like two up to 10 years is considered a note. So you have, you know, 90 day T bills, two year notes, five year note, 10 year note.

And anything beyond 10 years is called a bond, 20 year bond, 30 year bond, et cetera. So it's the stuff at the longer end of that 10 year notes, 30 year bonds. This is the really long-term stuff. The short-term stuff is 28 day T-bills. That's four weeks, man. That's nothing. That's nothing. I don't what Victoria's calling. You got 90 day T-bills. Those are the most popular, like very short-term bills.

So yeah, the Fed has a lot of influence on the short term end of that. You hear people talk about the yield curve. This is when people actually plot like a, you they plot a curve where they say, well, here's the rate on the, on the 20 day T bill, the 90 day T bill. And the curve is supposed to be essentially generally an upward trend. And this makes sense if you think about it, right? If somebody came to you and said, if I came to you and said, Joe, I want to borrow money from you. Your first question probably be how much or maybe it's probably say no.

James (32:16)
But you probably say how much, and the next question is for how long, right? That's pretty pertinent piece of information, how long? Because if I say, I'll pay you back tomorrow, you might not, you might, go, yeah, you know, was like, dude, I need 20 bucks, I'll pay you back tomorrow. You'd probably just pull it out of your wallet and go, here you go. If I said, I need $100,000 for the next 30 years, you're gonna take that a lot more seriously, right?

You're, know, we're gonna have to paper it up, we're gonna have to have a contract, and you're gonna have to charge me a rate of return, presuming you say yes, you're have to charge me rate of return that's going to make it worth your while, right? That's actually going to sort of de-risk it for you. If again, I say, you know, whatever, maybe you're swimming in cash, I say, I need 100 grand, but I only need it to like next week. Say, all right, you know, maybe you charge me, but you charge me a smaller rate.

And that's the whole idea is that the longer a duration of a loan, and that's essentially what bonds are, government bonds are just people loaning them money, the longer the duration, in general, higher rate, people should anticipate to be able to charge for that, the more the higher the yield should be. So the idea is that a 30-year bond has a higher yield than a 28-day T-bill. And that's usually how it works. So the yield curve basically shows, you know, 20-day T-bill has a lower rate, a 90-day T-bill has a slightly higher rate, you know, a five-year Treasury note has a higher rate, a 30-year bond has an even higher rate, and that's the way it usually goes.

The Fed doesn't really have a lot of power over the longer end of that curve, over the 30 year, the 10 year, et cetera. They don't usually have a lot of power because their policy rates, when the Fed says the Fed's going to cut rates, what does it actually mean? They have these policy rates and those policy rates are usually at the very, very, very, very, very, very, very short term rates. So, the Fed has these, you know, one of them is basically an overnight bank lending rate.

This is a rate that the Fed states the Fed stipulates that banks use to lend to one another overnight, literally overnight. I mean, it's less than 24 hours. Talk about short-term rate. This is like the equivalent of like, hey, can you give me 20 bucks? I'll pay you back tomorrow. That's the Fed's equivalent of the short-term overnight interbank lending rate.

And so the Fed's able to dictate that rate. so because of that, that rate, sure, like the overnight rate, that's going to have an influence over very, very short-term rate. 20 day T bills, 90 day T bills. And that will definitely have an impact on those shorter term rates. But the Fed says, hey, we're gonna change the on the overnight interest rate. If you're an investor who's looking at buying 30 year bonds, you don't really care what the overnight lending rate is. You don't care what somebody say, hey, loan me 20 bucks, I'll pay you back tomorrow. You don't care what that deal looks like.

You don't care what that interest rate looks like if you're gonna lend money for decades, because a lot can happen in 30 years. And in Europe, by the way, in a lot of other countries, they're doing deals at 100 years. know, they did they I mean, Austria issued like a 100 year bond at the height of the pandemic. I don't remember the rate they locked in, but it was ridiculously low. And that Ministry of Finance got to be feeling pretty smart about that.

Joe (35:33)
Well, you've said in the past that Yellen was an idiot not to have locked in these ultra low rates in 2020 when she had the chance could have refinanced almost the entire U.S. national debt at point one percent or something like that.

James (35:45)
Yeah, she could have done that. She could have not 0.1%, but she could have locked in. mean, they were selling, I mean, they were doing, they were issuing 30 year bonds at like one, you know, like 2%, less than 2%. I mean, they were so low. And so they could have gone and basically refinanced the entire, you know, US national debt at, you know, they couldn't have sold all 30 year bonds for that, obviously, but they could have probably moved out the average maturity of the US national debt to, you know, 10, 12 years, locked in rates at like sub 3%.

And man, mean, that would have been really great for the federal balance sheet, for the income statement, but they didn't do that. They didn't do that. And so this is a situation that the Treasury Department is in right now, is that rates have gone up a lot. And so the Treasury Department now, they issue new debt to finance their annual deficits, and they have to do this, I mean, every month, every quarter, they're issuing more and more and more debt.

And so because rates are high, especially at the long end of the curve. 30-year bond yields are very high. 10-year bond yields are very high. So what's the Treasury Department doing? They're sticking to the short end of that. They're issuing six-month, two-year, 12-month T-bills, basically. And they're basically saying, well, this is what we're going to stick to for now. And the Treasury Department has been very upfront about this. They said, we're just going to wait it out because we're going to stick to these short-term Treasuries right now. Because that's where the lowest interest rates are. We're gonna wait for interest rates to fall. And then when interest rates fall, then we're gonna rotate out where we started issuing that long-term stuff once interest rates fall.

So this is kind of interesting code when you think about it, because at the same time, they're dumping all over Jerome Powell, and again, not a fan, but they're dumping all over the Fed chairman. They had that that sort of photo op last week where they went. I think they did that on purpose, because Jerome Powell, like, I mean, I never saw a man look so small as I did in that video when he's sitting there with his little hard hat on and Trump's a big guy and he's standing there next to Trump and he just looks like this little tiny weakling with his little hat on and Trump's just berating him over the cost of their renovation, whatever. mean, it's just stuff like that. it was extremely awkward. It's extremely awkward. And so what they're basically saying is,

Joe (38:01)
It was so awkward. I actually thought it was fake at first. Sorry to interrupt you. I just thought like, it looked like something from The Office or one of these like fake shows where they're, or they're dubbing it with AI or something like that. was like, dude, is this seriously happening? No, no, you added a third building there.

James (38:18)
You got to think about that stuff now. I mean, it's like, you don't have to look at everything and go, is this real? Did this actually happen? Yeah. And so here's the strategy. And then we'll just get to the end of this. The strategy is the Treasury Secretary is saying, we're going to stick to the short end of the bond, of the yield curve right now. We're going to sell two year notes. We're going to sell six month T-bills, 90 day T-bills. And we're going to sell that basically until Jerome Powell's term is up.

And that's next year. like nine months from now. It's like next May. And so they're just going to keep doing this short-term treasury stuff for the next nine months until Jerome Powell's term is up. And once Jerome Powell's finished, he's no longer the Fed chairman, they're going to bring somebody else in. And you better believe whoever they bring in is going to be a wrecking ball. It's going to be a Trump-like figure, a very strong personality.

Technically there's like a committee that makes these decisions, but they're going to bring in somebody who's a really strong personality that's going to go into that room and going to steamroll everybody else on the Fed's open market committee, which is essentially what sets interest rates and quantitative easing and all that. They're going to bring in somebody that's going to steamroll over everybody at the Fed. And this guy is going to say, we're printing money.

I don't give a shit what any you people think. We're printing money, we're cutting rates, we're doing all this. And so the Treasury Department and the White House are basically saying, fine, we'll stick to the short end of the yield curve. We'll issue these six month T-bills. Hey, just wait until this time next year, until next summer. And there's going to be a new sheriff in town. There's going be a new Fed chairman who is going to be extremely sympathetic to the White House and is going to come in and steamroll everybody and say, we're printing money, we're cutting rates and all that. And guess what's going to happen?

All that quantitative easing where the, because the only way again, the Fed can kind of set the short-term rates, but if they want to really move long-term rates, if they want to really get 10-year yields down and 30-year bond yields down, there's basically only one answer. They got to print money. It's more quantitative easing. And this is the point of the story is that that quantitative easing, it's the printing money. That's what creates the inflation. And that could start as soon as next summer.

Because they're already giving it away. They're already talking about, here's our candidates for who's going to replace Jerome Pallott. All these people are fully on board the money printing train. Every one of those people is going to want to print money. So we could start seeing ~ a ~ money printing bonanza as soon as next summer. And that's going to be inflationary, whether at first it's asset price inflation or retail price inflation or both. That remains to be seen how much money they're going to print over what period of time. But the inflation could start as early as next summer.

And I think sort of the maximum duration we're looking at is 2033. So I think that the window for inflation is like summer of 26 to Q1 of 2033. This is all based on, know, Treasury Department, CBO forecasts. That's the window really that I think we're looking at. this is, you know, again, this isn't even our real analysis here. This is all based on sort of Treasury forecasts and Congressional Bunch Office forecasts.

Joe (41:30)
It's interesting that that could start next summer as well because of course we'll be going into the midterm. So I would imagine that the Trump administration is hoping for asset price inflation going into the midterms, ~ bump up that stock market and understanding probably that retail inflation could be a consequence of that, but maybe hoping that that will take place a little later after the elections along those lines.

James (41:55)
It could be. mean, it's hard to predict the exact trajectory of this stuff, but it would be very unusual to get asset price inflation without any retail price inflation at a time when foreigners are backing away from treasuries, when foreigners are buying fewer and fewer treasuries and roaching out of treasuries and into gold and things like that. That'd be a very, very, very

unusual combination to see that. know, most likely, if you're lucky, you'll get both, at least, you know, you'll get asset price inflation and retail price inflation.

That's kind of the whole point of the story is that it's an obvious train wreck. It's an obvious train wreck. You're seeing, again, when you're already spending more, basically all of your tax revenue, paying interest on the debt, social security, and Medicare, and all three of those are going up every single year. It's a train wreck. And the end of that train wreck is inflation. I'm not sitting here saying, it's the end of the world is nigh and all that kind of stuff.

I'm actually incredibly optimistic. And I think you can, you can choose your attitude on this. You can choose to be panicky and gloomy and all that, or you can choose to be optimistic about it. Say, you know what? Like I can see this coming. There's certain things I can do right now today in anticipation of this that will actually make me better off. And there's things I think that, that, anybody can do. We, we've talked about a lot of those things, but it's, it's ultimately, I think the decisions, the decision for people to make, can choose to be prepared for this.

You can choose to understand the consequences of being the most heavily indebted nation in the history of the world. And I can choose to understand those consequences and I can choose to be prepared for them, or I can choose to be, you know, panicky and pessimistic. It's a choice. And I think the right choice is to choose to be prepared, to choose to be optimistic about it. And I think there's a lot of things to be optimistic about, but I think it starts with just sort of setting your mind right, understanding what's happening, understanding what the consequences are, and, you know, just kind of getting the mentality right.

Joe (43:54)
And obviously you're talking about assets being inflated. So I would assume that going into certain assets would be one way to protect yourself from this retail inflation or if your assets are making more money, then you have that buffer there. So if the cost of living does rise, have that. it any assets, if you just pile into the stock market in general, is that going to protect your savings?

James (44:20)
It could be. Yeah, it could be. mean, to be frank, sometimes stock, sometimes assets in general become the safe haven. Right. So you see stocks in general go up, you see real estate prices go up, see a lot of things just go up in value just in general. It depends on how a lot of these things, how it plays out. What does the Fed actually do? I there's so many different permutations here.

One of the things that we've talked about, for example, is the Fed could just issue hundred year non-redeemable, or the Treasury Department could issue a hundred year non-redeemable ~ US government bonds that are exclusively sold essentially to the Fed. And the Fed buys all these hundred year zero coupon bonds, whatever, and ends up printing $25 trillion to refinance the debt. it's like, the key factors are just like when I say like, hey, I to borrow money, it's like how much and how long? How much is the Fed printing and over what period of time?

And is it upfront? Is it $25 trillion upfront? The economy has to absorb the shock of all of that. Do they do that? Do they beat foreigners over the head and say, if you don't do this, then we're going to invade you. ~ And maybe they scare enough foreigners into buying US government bonds. And it's that Mar-a-Lago Accord plan. And maybe they do find enough foreigners and scare enough foreigners into doing that. It kind of depends on how some of that breaks out.

in terms of what does really well. I think at the end of the day, ~ from a sort of a micro perspective to find really great businesses, just whatever really great business happens to be, whether it's in the emerging technology or whatever else, mean, a really great business with a long-term view, I just think that's a sensible investment. ~ think with such uncertainty you think about index investing, to buy like an S &P 500, you know, kind of fund, that always gives me a little bit of the, you know, of concern because to buy an index fund, you're buying every single asset, you know, in the market, basically, I mean, and to me, it's like irrespective of price or value, you know, to buy into the S &P 500, you're buying, you know, you're buying a lot of good companies, you're buying a lot of dogshit companies, too.

And, you know, I've always kind of wondered, like, why doesn't anybody have to like an S &P 400 where you just prune like the bottom 20%, you know, and have like an ETF just where you just get rid of the worst performers, the crappiest businesses, the worst managed, you know, whatever. mean, it's not like there aren't plenty of those in the S &P 500. Just get rid of the really bad ones. You know, that's always my problem with an index though, is you're buying, you're just buying bad companies because they're part of an index. I don't think that's just because something's part of an index, in my opinion, doesn't make it worth owning. Right.

The things that in an inflationary environment, what you find historically tend to do really well are real asset based businesses. So these are companies that tend to focus on essential ~ mines and minerals. This wouldn't even include not only, we talk about gold, but mean, platinum group metals that are really having their moment right now. ~ But I mean, could be iron, could be copper, could be a lot of things, ~ but real asset based businesses in the energy sector as well. I think even in agriculture, service, you know, real asset service businesses, these can do really, really well. And again, thing we've been talking about for so long, now going back more than a year, year and a half, I mean, there a lot of these companies are very, very cheap right now, very, very cheap. And we keep talking about, you know, companies that are very profitable mining an asset like gold that even gold has, you know, I mean, there's scope for gold to, to, to triple in value.

During this sort of period that we're talking about, you know, kind of through 2033, there's easily scope for gold to hit $10,000 or more. So just imagine like a company that's mining it, you know, company that's got his gold mining price locked in at, you know, $1,000 to $1,500 an ounce is selling it for $34, $3,500 an ounce. And that ounce could be worth $10,000, you know, in some years time, and this company is already making money hand over fist today and is only trading at two or three times earnings.

That's an example of basically a leveraged inflation hedge, right? The idea that like inflation could go up, but sensible investments in deeply undervalued inflation hedges today could go up a lot more, right? So, you know, a little bit of money in these hedges could really go a long way down the road to offset the negative impacts of inflation. And this is sort of the whole point. It's like if there are really undervalued inflation hedges today, and you can see this slow motion train wreck coming, it certainly makes sense to consider that.

And, you know, this is not me trying to give anybody financial advice or tell you what you should or should not do with your own money. These are basically just ideas here. That's what we try and put out ideas and what we think is very sensible research. But the idea is just look at upside versus downside. And the upside is being able to hedge ∼ inflation in a very sensible way, in a deeply undervalued way today. The downside is even if that doesn't happen, you bought a profitable company for three times earnings. That, by the way, pays a dividend.

So, you know, like a six, seven, 8 % dividend. I mean, that's your downside is owning a deeply undervalued profitable business that pays a dividend. The upside is essentially hedging that long-term inflation risk. So, that's the kind of way that we like to think about these risks and why I say you can choose to be panicky about it. You can choose to feel pessimistic and gloomy, or you can just look at it say, okay, there's a problem. Let me solve the problem. What are the tools out there?

Let me learn about the tools and various tool kits and then just apply one of those and figure it out, solve the problem and keep myself open to just the availability of all sorts of other opportunities that are going to come down the road and it's going to be plenty. Absolutely.

Joe (50:13)
Yeah, can absolutely have the silver lining, a little bit of opportunity in that. I think that's a pretty good place to stop. Thanks, James.

James (50:18)
Sure. Okay,

all right then.