TFTC 429

**Marty:** [00:00:00] Perfect. Ready, Logan? Alrighty. Luke Roman, welcome back. Thanks for

**Luke:** me back. It's great to be here, Marty.

**Marty:** Well, a lot has happened since the last time you're here. I was looking, the last time we recorded it was pre banking crisis, uh, pre the housing crisis, which we or not, how seems like parts of the world, Canada, the uk, there could be a housing crisis on, on the horizon as they have to change their interest rates.

They don't have 30 year fixed mortgages like we do here in the us. Inflation's running rampant in the uk. Uh, and I guess since we were just talking about that, like what the hell is going on the United Kingdom right now? They just raised their interest rates by 50 bips. Rishi Sona came out and said that if he doesn't, hasn't solved inflation, uh, in six months, he'll consider himself a failure.

Things seem pretty bad over there.

**Luke:** Yeah. Uh, you know, take, take what I would say with a, with a block of salt. I'm, I'm a, I'm a [00:01:00] tourist on, uh, tourist is being generous. I'm not even a tourist on UK politics. Um, so I'm looking at it from just a very generalist hat. But, uh, I watched the Bank of England last week raise rates 50 basis points, which was a surprise and.

The pound was flat to down against the dollar. Uh, you know, very quietly, 10 year guilt yields are almost all the way packed to where they were in the middle of the guilt crisis last year in, in September, uh, you got this reset that you just referenced from a, uh, mortgage standpoint that looks set to severely curtail, um, uh, severely curtail disposable incomes.

Uh, and the economy probably becomes a political issue. And Sun Act is caught between, Hey, I, you know, we need to fight inflation, and hey, we need to, um, you know, he had a tweet out last week highlighting that, you know, we're gonna, we're gonna fight inflation by handing more money out and, you know, in [00:02:00] some cases to, to the, to the most effective, which while my sympathies go out to the most effective, that's usually a very inefficient way of.

Fighting inflation. Uh, last week the UK also came out and said, we're gonna guarantee like 3 billion pounds in, in, in maybe 3 billion, uh, in Ukrainian government debt. So you're, they're doing these, like we're seeing in a lot of places around the world, these, um, opposing things. They say they wanna win.

They, they say they wanna, uh, fight inflation. Uh, inflation's still out of control, maybe worse there than here. It would, it would appear, uh, they're raising rates. Uh, but at the same time, like the real issue is fiscal, uh, it's fiscal and it, and it's energy. And so, um, they do not appear yet to have been chase enough to say, you know what?

We can't afford to support the Americans in the Ukrainians and Ukraine we're pulling out. Um, so that, you know, those types of [00:03:00] difficult fiscal decisions, um, have not been made on either the foreign policy side or domestically. Um, So to me it just seems like you're likely to continue to see elevated inflation.

Uh, you know, something that's always left out too is as it relates to the energy for them is Thatcher, I was looking at it last week. Thatcher benefited, uh, you know, she gets all the credit for the privatizations of fighting the inflation in the seventies and understood, uh, clearly, uh, an important role working down deficits, et cetera.

Uh, but everyone also leaves out that the UK North Sea went from zero to like a million and a half barrels in like three years at the end of the seventies, and then the two and a half million barrels by the mid to late eighties, which turned them into a net energy, net oil exporter for a bit, right? So all of a sudden your trade, you balance a trade shifts massively in favor of UK in favor of the pounds.

So there's like that energy, it was basically an energy miracle, and I don't see one on the horizon [00:04:00] for the UK in particular. So to me it looks. You know, if you sort of took the name off the nameplate and said, okay, here's the stats, you go, oof, that seems kind of ugly. Like they're acting to try to raise rates, um, to defend the currency, like an emerging market to get inflation down.

But you know, to your point, in a highly financialized, uh, western, you know, economy with resetting mortgage rates, uh, you're into sort of that em trap. So they're in a tough spot.

**Marty:** Yeah, yeah. It's a very precarious situation. We find ourselves in globally. Here in the United States, it feels like we're in a bit of a lull period between the banking crisis that began to unfold in February, in March.

And what many seem to think may be a continuation of that crisis later this summer when Q2 financials are, are released to market. Like what, what are you seeing right here in the us? Obviously we have the, uh, [00:05:00] the debt ceiling debate and the kicking of that can down the road. We've got the fed with their, their hawk, their hawkish paws or however they're defining it.

And, um, the real estate market here in the us obviously we have higher rates and it seems like in terms of being able to sell an existing home, that's, that's becoming very hard to do.

**Luke:** Yeah. I, I think we're, yeah, I think, uh, the, the sort of in a bit of a lull is a good way to finding it. I think we came into the year.

People, myself included, were too negative. And you had a positioning squeeze basically in the first quarter, and then all of a sudden you had these banking strains and everyone sort of reversed and unwound that, that optimism. Um, you know, that liquidity injection that we got in fourth quarter of last year from, you know, weaker dollar in particular, um, you know, rolling over inflation from, from the highs.

Uh, so then we have the banking strains and then it, [00:06:00] and, and then we have the debt ceiling. It seemed like people got positioned very negative, uh, for, uh, banking strains. Uh, the passing of the debt, you know, or the, the, the hedging of, and then the passing of the debt crisis, right? Basically they're gonna have to issue a bunch of bonds and squeeze, um, you know, dollar markets around the world.

Um, and then we had sort of this, you know, I know Optim is around AI over the last eight weeks, six, eight weeks, and it's sort of squeezed everybody and you know, they, the, you know, okay, well they're gonna maybe fund some of it out of the reverse repo, so maybe you don't have to work bank reserves down immediately to finance, you know, rebuild the T G A.

So basically, to me, the lull seems to be a little bit of a, a short squeeze of people that were positioned for this upcoming credit crunch that I think is, is gonna hit in the back half. And so we're now in this period of time, almost like where, okay, we had the squeeze, but the crunch is still coming. The, the, [00:07:00] the credit crunch is still gonna, the US government still has to issue an enormous amount on a net basis in the back half of the year.

Uh, there is not the private sector balance sheet globally available to absorb it with at the current yields or, and or current dollar values. Um, Uh, particularly if it strengthens the dollar, that balance sheet capacity shrinks cuz the rest of the world turns seller of, of treasuries, not buyer. Uh, and then you still have commercial real estate venture capital, uh, needing to issue a bunch.

And I think critically it does remind me a little bit of, of like the second quarter of oh eight. And that's not to say I necessarily think we're gonna have a Lehman in the fall. Um, my point is more just directionally that there was sort of like, this sits creg, right? Like fake war type of, you know, you had, you had all of the headlines in winter of oh seven into early oh eight, you had Bear Stearns fail and then it was like, Nothing.

The Fed came in [00:08:00] and then the US government does stimulus. If you remember, they sent checks to everybody in the second quarter of oh eight under Bush. And, and there was a period of time where everybody said, oh, see, that was it. Like every crisis, a bank has to fail. That's the day new ma the maiden went in the volcano and now we're all good.

And I remember thinking at the time going, yeah, that doesn't make sense. No. And it, and it, you didn't know what was gonna be the catalyst, but the, you know, July, July, early August of that year, you had Fannie Freddie go Critical, right? And then you had Hank, Hank, you had the virus bazooka, and then it, it went from there.

So it reminds the current period reminds me a lot of sort of that sixth grade period of two, two Qoa, where it's like, okay, well the Fed has, you know, they've, they've, they, they, they contain the banking strains. There's, there's no more banking problems. And the reality is like they're massively upside down on the real estate.

They're massively upside down on the treasuries. Um, The yield curve, the banking system is bleeding. You know, you can't have the two 10 curve at wherever it is. I haven't [00:09:00] checked it over the week, whatever, over negative a hundred basis point, like they're bleeding. So when does that bleeding matter? Is there a catalyst?

And so I do think that this credit crunch is widely understood, expected. Everybody knows commercial real estate has a problem. Everybody knows venture capital has a problem. It's sort of like the shark and jaws. Nobody knows how big it is. They've just seen, you know, we saw the girl get dragged back and forth and pulled under at the beginning of the movie, and that's all we've seen so far.

Uh, and it was like, okay, well that was, that was scary and too bad for the girl. And, and like, no, no, no. There's the star sharks still there. Uh, so, but I don't know what's going to be the catalyst to see the shark. Right? I mean, you need, there's more headlines today about, you know, I think only 10% of of New York Manhattan real estates like, like.

And the money, which is real. I think that was basically right. So in, in the FT was your headline. I think people know that. I don't think they know how big the shark is and I don't know what the catalyst's gonna be. I think layered on [00:10:00] top of that, the side that's sort of nobody's prepared for, uh, very few people prepared, prepared for is what's happening in the US shale patch, which is to say, uh, the Permian is getting very peaky and in terms of oil production and whether that happens later this year, early next year, we're getting into a situation where you could have this credit crunch in the financialized world while oil's going 70, 75, 80, 85.

The SPRs already drawn down to a large extent, um, because of Peak Cheap Oil that basically the US shale patch, which has been 90% of global oil production growth over the last 10 years. Is rolling over thanks to the spr r thanks to the fed rate hikes. So that is the side of all of this, the overlay to the credit crunch that I think is well, relatively well understood.

We're waiting for the catalyst on sort of the re-acceleration of the credit crunch on the other side of this lull. But then the overlay on top of that, that is just [00:11:00] not being discussed by virtually anybody is, is what happens if we get a credit crunch and oil goes back to a hundred. And that's, that's, that's a really, really ugly environment because there's, you know, bonds get killed, tech gets killed, stocks get killed, real estate gets killed, you know, sort of everything.

But the dollar gets killed. And I think actually gold probably does really well in that environment too. Uh, Bitcoin probably does, does, I think actually well in that as well, because with each successive cycle, in my view, we've seen it act more like a, more like gold as a, as a counterparty risk free asset, and less like a high beta tech stock.

But that's, you know, let's, let's watch and see.

**Marty:** Yeah, no, my, uh, my Shell gas station indicator that I pass every day on the way to the office is going up, it's at like 3, 3 0 8 today. It was at 2 94 last week. And it does seem, obviously it's summer travel season, so more people are driving and that'll actually, [00:12:00] that obviously drives up demand, but the whole energy situation is something that, it was a big theme last year and the year before.

But it seems like people have put it to the wayside this year particularly, and I don't think any of the structural problems that existed in energy that we talked about last year and the year before have have changed significantly.

**Luke:** No, and I would, I would argue, and I, I have argued, I've written that basically the US and the West Gambit in dealing with Russia was, alright, we're gonna run the SPR down.

Right. So, so, so let's go back in time, March of last year, oil spikes to whatever, 120 on the invasion. The US has two choices. Leave oil where it is and let the bond market sell off and let shale respond on a lag. Let them ramp up production and bring oil down organically, which it was the, the, the [00:13:00] pound smart penny, you know, politically foolish, right?

The opposite of Pennywise pound foolish, you know, the penny foolish pound wise way of, of doing it, because then you would've had a bigger installed base of shale, you would've gained leverage. Um, You know, you would've been, you would've prevented sort of the rollover that we're seeing in, in shale. Uh, but the, you would've lost the bond market, right?

You would've, you know, tenure probably doesn't stop at four and change or whatever the heck it went to last year. In that world, it probably goes five, six. You have a sovereign credit crisis housing market. Okay? So politically they make the decision, they could choose, we can, we can save the bond market or we can save the oil market.

Um, and they chose to try to kind of split the baby, which is we're gonna save the bond market and try to kind of keep the oil market afloat, which is to say, uh, we're going to engage in what I've called [00:14:00] oil swap lines with our allies. We're gonna release the SPRs, we're gonna dump SPR reserves into the market.

We're gonna bring the price of oil down, we're gonna jack rates up fast. And the gambit, there was basically. We need to break Russia and we need to break inflation before us shale rolls over. Cuz if us shale rolls over where it is, given where it is geologically, it's gonna be years, uh, minimum and much higher prices to start setting new highs just given the geology of, of the big four basins.

And that was the strategy the US that the White House chose is let's bring down oil, fight inflation, support the bond market and hopefully Russia rolls over and collapses and putin's out. And, uh, you know, inflation's all the way back to the fed's target before SHA rolls over. And that to me is like the biggie as we look out to the back half of the year is the gambit kind of worked for a bit, but it's [00:15:00] now, it's now failed.

Putin's still there. Shas rolling over Infl headline inflation's 5.3%. Uh, you're not, you, you need to keep tightening. Now you're, you're gonna be moving into a period of time where SPR has been drastically worked down, uh, shas rolling over, Putin's still in power. Now your choice get uglier. Your choices now are let the bo you know, basically, you know, shas gonna, you know, shrink the economy as shale rolls over to keep oil contained and to save the bond market.

But with that, as high as it is, that's not, you know, that's like we had to destroy the village in order to save it. You know, um, uh, that's, that's, that's a much uglier, a much uglier decision set they're facing than what they faced a year ago. So basically that gambit, I think, has failed and that sets up a situation where you get into an, you know, [00:16:00] stagflationary environment in the back half of this year, which I don't think a lot of people are positioned for.

Yeah.

**Marty:** It's only exacerbated by. The fact that like, OPEC doesn't seem to want to help out in any way either.

**Luke:** I'm, I'm, I'm of two minds of that. I, and I can't figure, I can't figure OPEC out. I, I think what Saudi is trying to do is be the adult in the room. Mm-hmm. Like, you've got the, the, the White House Energy policy staff seemed like pollyannas.

Right? Uh, and that's being, that's, that's being politically nice. Uh, Saudi's energy minister came out at the end of 2021 and said, look, we could be, the world could be 30% short of oil supplies by the end of this decade. That's a catastrophic world. That is like, bye-bye. Bond market. You know, feds, feds, fed Europeans.

Everyone in the world's gonna be in doing yield curve control. And in [00:17:00] that world, you need a complete reset of the currency system because no one in the world is gonna sell their oil. In return for currency, it's being yield curve controlled on the amount of debts we're, we're, we're, we're, we have, so I actually think the Saudis are act a acting as the adult in the room.

And I don't think the Americans mind, if you notice last summer when Saudi cup production, oh my God, the White House screamed bloody murder this year, Saudi raises or cuts production and there wasn't a peep from the White House. They didn't say a thing. So I, I think they are, the Saudis are trying to act as the adult in the room, which is to say the production, to keep oil prices above a threshold, to keep shale from rolling over hard.

Cuz if shale rolls over hard, who's got all, who's got all the leverage in the oil market globally, Saudi and Russia. And if that's the case, then you know, it, [00:18:00] it again, it would be another Pennywise pound foolish decision. So I, I think they're trying to kind of keep. Oil above a level that is, that keeps shale in the game.

Cuz if shale leaves the game, like it's, it's like Putin's in the driver's seat. Um, and, and in terms of oil prices and if Putin's in, in the driver's seat and oil prices Putin's in the, in the driver's seat on Western inflation and by extension Western bond markets. And it's, it's sort of game over at that point in terms of, you know, okay, run up the, you know, run up inflation, run up oil bond market, blah.

Now what do you wanna do fed? You know, do you wanna cut defense spending? Do you wanna cut entitlements? Do you wanna cut? Like that's all, you can cut Congress, um, or does the Fed wanna finance it with printed money and take it out of the dollar? And that's, so I, I think the south I may be ascribing too much motive, uh, but I, I think the south and I, the reason I, I am [00:19:00] ascribing this motive is again, White House screamed bloody murder a year ago and they haven't said anything about these production cuts by the Saudi.

So I think they're okay with it because it's helping keep shale in the game, which has important implications for the US Bond market, uh, via us inflation rates. Yeah, it is,

**Marty:** it is a quagmire. Cuz again, going back to like the Fed and the options they have at their fingertips, very few and far between right now.

And going back to like the banking crisis, I think a lot of people were focused on the duration mismatch that existed, uh, at Silicon Valley Bank and First Republic and Signature, uh, with their reserve allocations. But I think one thing that's become abundantly clear over the last month, and particularly the last few weeks, is a big part of the problem is just how massive some of the deposits were and some some of the, uh, accounts that individual customers.

We're [00:20:00] holding at these banks. And that's, um, that creates a big problem cuz you have run, you have people with billion dollar accounts just running. Uh, again, that's why I think we're in a lull period. That's the big question right now is how many deposits have fled in q2, which will only be surfaced when financials come out at the end of the month.

And then if you have that, that situation arise where the banks continue to fall, and you look at the magnitude of the banks that fell, Silicon Valley Bank, first Republic signature, I mean those were 2, 3, 4, the five largest bank failures in US history. And so like what options does the Fed have? Like I saw you tweeting the other day that they don't really have a dial anymore, it's just a lever they choose between deflation and inflation at any given point in time.

**Luke:** Yeah, I mean, to me this banking crisis has always been not a banking crisis. It's been a symptom of the latest symptom. [00:21:00] Of a US fiscal crisis, right? If we go back in time, uh, these banks were incented to buy treasuries. Remember we go back to April, 2020, you know, hey, fed suspends, the su uh, supplementary leverage ratios, the S SLRs, uh, on treasuries, right?

So basically, this is an oversimplification, but the gist of it is, is basically treasuries counted against the capital ratios for these banks. If these banks bought them in their securities portfolios and in 2020, the Fed was already buying gobs and gobs at treasuries, and so they came out in April 20 and said, Hey, we're suspending SL R regulations.

These leverage calculations specifically for treasuries, which is basically, Hey, help us do QE in even bigger amounts without calling it qe. Because de facto, what that meant is there was no reserve requirement for banks to buy treasury. So if, if you can buy a 10 year treasury, Yielding, whatever it was at the time, one and a half, two, whatever.[00:22:00]

Uh, but literally no reserve requirement. You're literally allowed to like, just, I mean, I would've done that, right? Hey, Luke, we're gonna suspend s SLR requirements for you. Okay? So I, how many treasuries can I buy? Well, there's no regulation. Okay, I'll take a billion. Well, you don't have a billion, but there's no re reserve.

Great. I'll buy a billion dollars of treasuries when my funding cost is zero. Cuz I just created the money outta thin air and there's no reserve requirement against it. And now I'm making whatever, a billion, you know, say it's 10 billion, I'll take 10 billion. Great. Right? So that's what, 200 million a year in interest at 2%?

Am I doing my math right? 20% is, yeah, 10 billion is 2 billion. Yeah. 200 million. 200 million a year. Like literally free and clear. So why did the fed change those regulations in 2020? Because it was a US fiscal crisis. It was the latest symptom. This whole thing goes back 10 years to when foreign central banks stopped buying treasuries on net.

They haven't bought a [00:23:00] treasury on net in 10 years, and it's been this emerging market playbook of, okay, well we'll regulate the banks in, into buying more and then we'll regulate the US money market funds into, into buying more, and then we'll regulate US pensions into buying more. They did that in 2018 under the, under the Trump tax cuts.

Uh, they will regulate this, that, okay, great, but the whole time the bet was, well, inflation will never pick up as long as inflation never picks up, it's fine. Inflation picked up, oh, oh, now we gotta re you know, we, I, we either, we, we, we tr you know, people say, well, did they trick these banks? I don't, I don't think the Fed tricked these banks other than.

I think the Fed really thought of, you know, they didn't, they, they were just putting on a fire, so they weren't thinking about the second derivative of what if inflation ever goes to 5%, like the banking system's, like in serious trouble. Why? Because we encourage them to buy all these treasuries at basically infinite leverage, right?

If you suspend the regularly the regulatory capital requirement, you're, they're buying treasuries at [00:24:00] effectively infinite leverage or picking up nickels in front of a steamroller. Hey, buy all you want, you make 2% free unless inflation picks up and then they get you on the back end. And so I've, I've I the entire time, to me, this banking strain has been a fiscal crisis.

This is simply the latest iteration of in, in the Primrose path between foreign central banks, stop buying treasuries. To the inevitable end game, which is the Fed buys them, or the Fed goes to yield curve control and buys them all effectively. And so we've been marching toward that end game for 10 years.

And to me, this banking strains are just a, um, they're just a symptom of the latest symptom of, of that, of that end game. Um, and between here and there, you know, you can go right to the end game or you could get a whoosh down and then the Fed responds like we did around Covid. Uh, that to me is, is unclear still, but I, I think it's been very much a symptom of the fiscal [00:25:00] problems that have been ongoing in building for 10 years now.

**Marty:** Yeah. And speaking of the fiscal problems, like what are your thoughts on how the, the debt ceiling debate was resolved or not resolved? Depending on,

**Luke:** I think it's more the sa like to me, I don't have a strong feeling on it either way. It's sort of like not surprising they resolved it last second, like, Yeah, I, I just don't have a strong Yeah, they didn't, the only strong feeling I had on it was that if they had such a hard time coming to an agreement to what was, if I'm, I'm gonna remember it wrong, but it was basically like, it was like a 40% cut to like 15% of spending or something like the, the, the, the Democrats are screaming bloody murder about this 40% cut the Republicans wanted on like discretionary, [00:26:00] non defense spending.

And when you go, okay, discretionary, non-defense, you are like, oh my God, they're fighting over. Like if that's the fight we got from that little a cut. They're never cutting entitlements, they're never cutting defense. They're never cutting anything that matters like they're gonna inflate, like that's it.

And the rest of it's just, you know, it's just, it's just sort of a distraction. So all, you know, again, path matters, but that was my big takeaway is like, oh my God, that was the fight over that. Little cut. Okay. Yeah, they're gonna cut something. Sure.

**Marty:** Yeah, no, that's, uh, two things I like to start. Like, have they actually gotten inflation under control?

Yes. The CPI has come down, they've had their, their pause, if you will. Um, but it doesn't seem like it, like I'm seeing a lot of indicators. Actually had a friend went to get a haircut over the weekend, took a picture [00:27:00] at the barbershop where they're making the announcement, come July 1st. We're raising prices, going through an explanation of how their cost have got up as a company and they're forced to do this.

So that's like an anecdotal. Signal that, that the inflation problem may not be solved in the way that the, the Fed and, um, the, the White House are, are trying to portray. Then number two, like going to like the retirement crisis and retirement funds with this bond situation going up, like, uh, like conversation on this show I've had recently is the, the concept of like target date funds, um, for, for retirement that have shifted all the boomers portfolios to 80 20 bond stocks and you have 10,000 boomers retiring a day in this environment with, with bonds, it does not seem like an ideal situation and I guess that's the big question.

When is the Fed [00:28:00] going to reverse course? If they are, are they gonna hold a hard line and keep raising rates or hold them higher for longer or are they gonna be forced by essentially a retirement crisis? Uh, to lower rates. But then again, you have the real inflation story, which is I think that they actually don't have inflation under control.

**Luke:** Well, and I think too, the longer this goes on, right, so there's fundamentally, there's no difference at the base level between a 600 billion STEMI that the government sends to everybody and a 600 billion increase in interest expense, cuz the Fed raise rates, the only difference is really who the money goes to.

Um, and the marginal propensity to consume of those, uh, that receive it. So you hand a 600 billion STEMI to everybody and that money gets spent, that's like heroin directed directly or injected directly into your, you know, into your jugular, right? Like that's now the, [00:29:00] the $600 billion interest STEMI is much more sort of like a IV drip, drip, drip, drip, drip, drip.

And. That stuff, yeah. Goes into assets, but ultimately that money ends up in the economy at some point. Um, and so there in my opinion, has not been enough work done by the economic mainstream, uh, about interest rate hikes and aggressive, in particular aggressive interest rate hikes when debt to GDP is 130 per or 120% when deficits are 8% of gdp d um, they're inflationary.

Uh, and th point being is, I think that's one reason that I think we're sort of the maximum we're getting to, like the maximum deflation we can get without a crash. In other words, you know, if they let the system crash, yeah, we'll get deflation. I mean, the Fed could have ended inflation [00:30:00] immediately in March.

Oprah, you have 800 million at Signature Bank or whatever she had. You get 250,000, have a good day. Venture capital A, you had 1,000,000,002, you get 250,000. Oh, that means you need to lay off all the, oops. They lay off their people. Those people. Oh, you can't afford a house in the Bay Area. Sorry. Sell it. Oh, that means those bags fail.

Sorry. Oops, oops, oops. You coulda if you just said, Hey, we're not bailing out, unsecured, depositors. They would now, you would've had, we would be, we would be at negative. We'd probably be at negative c p I like, like by now. Uh, but Paul, it's political economy, not just economy. So the Fed showed their hand a bit, right?

So number one, that's gonna build on inflation. This interest is, I think the, the fact that interest increases deficits and deficits are inflationary over time. That is the longer we go. I, I think. They're gonna have a [00:31:00] hard time getting core inflation down to the levels they want to get to. Number two right now with headline C P I at 5.3%, a point of that roughly year over year is, is energy deflation.

And like we just talked about before, I think that's gonna start going the other direction because 90% of the world's product production growth in oil over the last 10 years is rolling over thanks to the SPR R releases and the rate hikes. So, you know, I don't think we're too many months removed from oils 70 oils, 75 oil's 80, and then, hey, economist at X, Y, Z says $80 Oil means actually in the next C P I print oil's gonna add a point to the headline, not detract a point, which puts us back in the sixes.

So now you're looking at a world where, wait a second. I own what? You know, what do I own? The economy's slowing. Inflation's reaccelerating. The SPRs run [00:32:00] down. Why? Why do I own the long end of the curve? Like, like for sa like safety. Uh, good luck with inflation accelerated. Like what, what's, so you're gonna get into a stagflationary type environment.

So I, I think we're probably getting to, like, again, how do you fix this? Like, I could fix inflation tomorrow. I cut rates to zero. I raise tax rates by, I don't know, 30% cross the board. And I go to Congress and I say, you've gotta run a balanced budget. Gone. Inflation is dead tomorrow. Um, Fed can't cut rates to zero.

Well, they could, but if they cut rates to zero without doing the other two over, which they have no control, inflation will go nuts. So it speaks to the intractability, like the Fed is like, they're like fighting Mike Tyson in his prime with like, I don't know, one and a half arms tied behind their [00:33:00] back.

Right? They're like sort of like trying to reach like this with one arm tied at the elbow and the other one completely behind their back and like they've done a nice job, but they're gonna get killed. Uh, in the end, Mike's gonna knock him out and there's no political will, uh, to do the other two things, uh, for any number of reasons.

So to me, yeah. Is it this month? Next month, next month? I don't know. But I think we're getting close to like the maximum amount of deflation and when that starts going the other way, that's I think is gonna be a real interesting time in markets. I think that's, I think you, that's not a good outlook for markets because you just, nobody's positioned for it, number one.

And it's not good for. Basically anything but like the dollar and energy and, you know, probably gold.

**Marty:** Yeah. How like, and it seems like it's talking about like the political, uh, quagmire and the insanity of it right now too. It looks like they're gearing up to do something that the politicians are [00:34:00] really good at, is creating a distraction when things are going bad and they're not managing, uh, the government and their fiscal side of the house appropriately, which is distract people with war.

And you had Lindsey Graham and Senator Blumenthal over, uh, in Ukraine saying that they're willing to, um, initiate Article five of NATO to, to really turn up things with, with Russia, it's just like, ah, how, how far are they gonna go on the distraction side of things to really try to paper over the, the economic turmoil that we're going through.

Yeah, that's the

**Luke:** $64,000 question. I mean, I, who knows? Um, they've made, they, and, and, you know, it's both sides of the aisle for 30 years. Like they have made collectively bad decision after bad decision, after bad decision with borrowed money. Uh, and they never thought the bill would come due. And the bills do, and the [00:35:00] changes, the things they're trying to stop from happening require changes 10 years ago and 20 years ago, you know, there was a great article recently, uh, last week in the ft uh, I guess it was at the Paris Air Show, that CEO of Raytheon said, we can't fight a war without China.

Well, I would say that's a bit of a problem. If you're gonna try to fight China and you can't fight China without stuff from China. Now this is something I've been repeating ad nauseum for 10 years and you know, it's interesting, it went through the classic path of who's this idiot? Oh, okay, well, you know, first they ignore you, then they laugh at you, then they fight you and then you win.

And it's like, now you have the CEO of Raytheon in 2023 admitting this, um, the US Defense Department put out documents saying exactly this. In 2018, chairman of the Joint Chiefs of staff said in 2011, we're borrowing money from China to build weapons to face down China. This is not a sustainable strategy.

Uh, you know, I've been saying for a decade or more like, Hey, we have [00:36:00] de-industrialized the US Defense Industrial base. Um, and that's a problem as a national security imperative, and it's somebody at some point, somebody needs to pay attention to this. So, Like on, on one level, you can see the attempts at distraction by Graham and others on another level.

It's not feasible. They're bad decisions of the last 20 years. It's not feasible.

**Marty:** Yeah. I actually had a, an ex intelligence officer on the show a couple months ago, and he was explaining like, yeah, if we don't have the factory capacity to build the weaponry necessary, if we decided to get into a ground war, uh, over in Ukraine or Taiwan, not only do we not have the capacity to, to actually spin up the weaponry that would be necessary for that.

We, we, we haven't trained for these type of wars in decades. Like if we were to go over there and immerse ourselves in that type of war, it would [00:37:00] get completely. Wrecked almost immediately because we don't have the, the firepower or the strategic training to actually pull it off, which is Yeah,

**Luke:** it would've to devolve, it would've to devolve into basically nuclear, uh, very quickly cuz Yeah, you, you know, and it's been an advantage I've had being based in Cleveland for most of my career, all my career, which is like, I saw the de-industrialization of America first, right?

I mean, we're, we're sort of, you know, the emerging market of, you know, the Rust Belt is America's emerging market, and I just watched it get whittled away. Um, you know, and you don't see, if you're in New York, if you're in Washington, if you're in the coast, you don't see what has happened. They're starting to see it now a little bit, but like, you know, when, you know, I've been watching this for 20, 25 years.

My father-in-law, my late father-in-law was a teamster official. So like, I remember golfing with he and a couple of his, you know, his, his union official buddies in the early two thousands after China went into the wto. And it's so fascinating [00:38:00] because. Those, those guys were seeing factory losses closed down, go to China, and they all set like not collectively.

The three of them had not a single day of college education amongst them, right? Not, not a single po uh, post, post high school day of education, but they were all super street smart. Um, and they, they got it right away. Like, like, I get it. Okay. You're, you're, you're gonna increase more profits. You're gonna, you know, it's gonna be, make the stock go up.

But then what, what about 10 years from now? What about 15 years from now? What, what are you gonna do? And no one, no one thought that far ahead. It was just, Hey, let's, let's get profits up now. Let's get the stock up now. Let's break labor now. And now, like, you don't have the indu, the skilled industrial labor.

So it's like, you gotta get the FA facilities and you gotta get the grid, then you gotta get the labor, you gotta get the like, and the answer is like, well, let's just open up immigration. [00:39:00] Do you think like people are just waiting like, like there's like welders, like skilled welders looking to like, like, no, no, that's not how it works.

There's lead time to this stuff. So there's been, when you chronically manage short term on borrowed money over and over and over, a reckoning comes at some point. And the reckonings here.

**Marty:** Yeah. That's actually one of the scariest parts of, of this crisis we find ourselves in is that lack of skilled labor to actually maintain.

Like obviously we had the, uh, the bridge collapse, uh, the tra the railroad collapse in Montana over the weekend there's more and more stories hitting the headlines of plane failures. We had, uh, somebody on a tarmac, I believe in Dallas, I forget which airport gets sucked into the engine. Like we literally don't have the people to maintain the infrastructure or build.

Modern day transportation technology like [00:40:00] airplanes, which gets scary when you think about that late stage, the part of late stage where the infrastructure is crumbling, which is happening now. And then we used to do a lot of deaths because you don't have the people that can actually fix and maintain the things that run our modern day economy.

And that's,

**Luke:** that is the challenge. It ties back to the challenge of the Fed. I remember seeing, you know, in hindsight, an early symptom of this. I remember in a former life we had a client, um, you know, this is, this was not f ft t, this was, you know, a, a pre pre F f T T in my, in a former life. We had a client who was like, I mean, if I remember, he was like, he was like a, like literally a brain surgeon and had trained for like 20 years or something to be a brain surgeon and found that like you could make more money making or, or being, being a hedge fund analyst than, than operating on the human brain.

And. The person made the decision that was, and oh, by the way, you don't have to deal [00:41:00] with the, you know, the lawsuits and the, the, the, uh, um, you know, insurance that doctors have to pay hand in. And, and it, so it was a, it was a high, it was a higher pay, you know, higher quality of life across the board. So this person made the rational decision to switch professions.

And I, I respect it. It's not a cri critique of that at all. I simply look at it as, as, as a symptom, an early symptom of this tragedy of the commons problem, which was, I mean, I, I went through the same thing, right? Like, Hey, I could study to be an engineer, or I could get a business degree, which was a lot easier than my buddies in engineering, and I could, you know, go into equity sales and I could make a lot more money to support my family doing equity sales than I could, you know, being an engineer, making something.

And then, you know, There's a re there's a reference to this in the, uh, uh, movie margin call, right? Uh, um, Stanley Tui's character at the end in margin call. Same thing. I used to build bridges. Right now I'm selling derivatives. Okay? You'd repeat that story [00:42:00] enough over the course of the economy over a long enough period of time like we have.

Then eventually you get to like, Hey, we don't have the people to, to the welders to rebuild the bridges, keep things running, et cetera, et cetera, et cetera, which only, and then you get the two choices. You get to sort of a disorderly breakdown of your infrastructure, or you get a disorderly breakdown of your bond markets.

Cuz what has, we've gotten it to the point in my view that your only choice is pay the man. Right? Pay the man, surely. Right? Pay, pay me. So like, okay, if we have a labor shortage, we need a national imperative to say, You go into welding, you're gonna, the government's gonna guarantee you're gonna come out making 200 a year, and by five years you'll be making 500.

And you gotta do something to draw. And, and that's not just welding, it's welding engineering. It's, it's all of these things that [00:43:00] have been sort of culturally shunned over the last 40 years. Um, because otherwise your whole, you know, Biden, I, I applaud him. He's basically running Trump's economic plan, right?

Bringing factories back, investing, you know, printing money to put, to, to put in semiconductor fabs great. But without the labor, it's gonna fail. And to get the labor, the bond market has to die on a real basis. The government's gotta come out and say, we're gonna invest a trillion dollars in the labor force to support this reshoring.

And here's how we're gonna do it. Like, you want to go into skilled labor, you're gonna come out in three years, making 200 grand, and you're gonna go to 500 grand. Because right now, no, in Cleveland, Ohio, plumbers are making 300 grand and no one wants to be a plumber. So you gotta make it, you gotta do something like that to spur and you need to do it like yesterday.

Uh, and it's not happening yet because again, if you come out and do that, guess what the 10 year's gonna do? You know, the 10 year yields gonna six and now 10 year goes to six. Oh crap. The housing market crap's on itself. The, the, [00:44:00] you know, US government can't fund itself those rates without fed help. So you're, this is where you get to when you make repeated short term bad decisions on borrowed money and here we are.

Yeah.

**Marty:** It reminds me a newsletter I wrote last month that was referencing a Thomas pain quote, which is, if there is going to be trouble, let a BMI day so I can take it on so that I can children have a better day paraphrased. Um, but I think that's a decision we have to make. I think if we are going to make a better world for our children, we have to make, like, I think we have to let the bond market fail and like focus on like getting more skilled labor into the workforce and really focusing on.

Uh, battening up the economy, making sure that it will actually work for our children when they enter the workforce. And it's interesting too, cuz we, I've, I see microcosms, there's like, there's spats of it in the bitcoin mining industry, particularly like I see it up in Appalachia and mining company that I'm involved in.

Like we are actually, uh, [00:45:00] very strategically target areas, municipalities, towns that have had manufacturing capacity move out and have declining populations cuz they have these large substations with excess, excess capacity. And if we're able to allow the utility to, to get more power from TVA to fill up that capacity and they get lower pricing and we get, um, low mining cost.

And so like there's, uh, And it's funny, it's like almost paradoxical that the Elizabeth Warrens of the world and people that think Bitcoin mining, uh, is using too much energy and is a big waste. It's actually funny cuz what we're doing is actually solving the problem that globalization in a shoring of our manufacturing created in the first place, we're actually making that energy infrastructure more efficient in fixing the problems that they, um, that they create in the first place.

And I do think some people think it's a pipe dream or that it's wishful [00:46:00] thinking or that it's idiotic, but I do think there is some signal there, particularly like in Bitcoin where Oh, absolutely. You're also pushing the edge, uh, on engineering too. From software side, firmware side, physical infrastructure minors have a very strong incentive to make sure the infrastructures are leveraging is.

Maintained properly and reliable and like it's very small right now, or not very small, smaller than most industries. But I do think if you just let that flourish, there could be somewhat of a natural healing process in the Rust Belt in other parts of the country that have had this.

**Luke:** Absolutely. It was interesting, I had a tweet last week where I, I retweeted or quote tweeted an article about, uh, Texas brownouts, you know, they had, the temperature was up or whatever, 1 0 5 you guys are having down there, whatever, and right.

So there, uh, ERCOT saying, Hey, we're gonna have to shut down this or that. And like, I know for a fact there are spot, you know, it's still small, [00:47:00] but hey, if, if you build ahead of time, especially if you can get the industry to grow so that as utilities plan capacity expansions, you can then begin to build capacity closer to peak.

If you know you've got the Bitcoin, draw the balancing on the other side where you can say, okay, let's build this higher capacity. Cause we know those guys will take it cuz it's cheap. And then we can pick up the phone when it gets to one oh five across the state and say, Hey, shut 'em down. We need the capacity to address peak loads in the residential or the industrial market, whatever.

It's a more efficient, more balanced system. And it was so interesting, like it's not up for debate, it's happening on a small level. It will absolutely work. And yet the pushback I got from a number of people on like, it was nasty. Like, you're crazy, this doesn't happen. Like no, no, no. It is happening. Like this isn't, I'm not [00:48:00] speculating, it's yes.

Is it nichey still? Absolutely. But it's happening and it could happen much greater. It's actually is paradoxically, like you said, aix to a lot of things. But it that, that just tells me how early it is in the whole process. The fact that p like. They're still even arguing so vehemently they don't even realize that it's happening already.

I mean, it, it just tells you how early it is in the whole process for, for Bitcoin.

**Marty:** Yeah. And last week, I mean, last week there was a material reduction in the current hash rate of Bitcoin. It fell from like three, the average over the previous 30 days was 376 Xa hash. I believe Tuesday or Wednesday when it was really hot here in Texas, it fell to like 315.

So it fell by like 17%. Oh, wow. Um, uh, as minors here in Texas were embarking on demand response. And then the other fascinating, like it helps economically too. If you looked at the Ercot day ahead price estimates, they were estimated to run up to a thousand dollars a megawatt hour. [00:49:00] They only hit like two 50 that day because Wow.

Miners were able to turn off and sell it back, turn off the rigs. Yeah. And so

**Luke:** it's such a, it's such a, it's makes so much sense.

**Marty:** Yeah. It's. That's, that's like the frustrating thing with the administration that, not the administration, the, the uni party system that's taking the short term. Uh, this made the short term decisions for decades on end, uh, and have really put us in a pretty shitty spot economically.

Uh, and minors were out there actually solving problems in a free market fashion, and it's working, and yet they refuse to acknowledge the evidence and still wanna paint us as these bad evil energy pirates.

**Luke:** Yeah. It's, I it is head scratching and that, you know, I tie it back to like, okay, well if it's taken 'em still this long to understand this, unfortunately, you go back to the initial point of, all right, it's gotta get, [00:50:00] it's gonna have to get worse before they really understand it.

Unfortunately, it, it's, uh, Yeah. And that ultimately said, okay, inflation's gonna get to some level, but it's not going back to two all the way, and then it's gonna start picking back up again because they just, they're not making the investments fast enough and wisely enough, I think, uh, to avoid some of the supply chain infrastructure breakdown that will occur.

And as that happens, it's inflationary, you know, structurally inflationary.

**Marty:** Yeah. So you mentioned earlier potential for stagflation on the back end of this year and people are not positioned for it. How are they not positioned and what's it gonna look like when they're catch themselves on the wrong side of this reality?

**Luke:** Oh yeah. I mean, they're not positioned cuz you still hear people talking about wanting own the long end of the treasury curve. Like that's, you know, a lot of people still, Hey, that's, let's own it. We're gonna go, the fed's gonna go hire for longer and push people, push 'em into a [00:51:00] recession. And that's, I wanna own the 10 year treasury and the 10 year treasury, you know, wherever it is now.

36, 37, I don't know. Um, like that's not the right price. If we, if we wake up in four to eight months and oil's 85 and c p i, headline has a six back in front of it, that 10 year treasury's gotta have at least four in front of it. Um, and as that happens, that force, I think a complete review of like, why am I bidding the nasdaq, why, you know, why am I building the big six sort of, you know, negative real rate growth names, um, that's gotta get reviewed.

So, you know, 10 year pricing's wrong, NASDAQ pricing's wrong. You know, the, the whole AI efficiency margins up. Productivity gain from AI sort of view right now is wrong. Uh, it's all wrong. The doll, you know, the [00:52:00] dollar's too low, uh, oil's too low, uh, on down the line, you know, in that world you wanna own dollar gold energy.

And, and I think probably Bitcoin too. Like I said before, um, you know, I, I wrestle with the Bitcoin because it has had that, of course, that high beta, you know, tech, uh, field to it. Uh, that's been shifting, like I said. But, but that's, that's why I say they're not position for, it's just watching where those assets are trading.

There's just no view toward, Hey, what if we, you know, they're just kinda looking, Hey, straight, straight, line it down and we're gonna be at 2% by Christmas and great. I want to, you know this. I don't think that's how it's gonna go. They're just not paying attention to what's happening in the energy patch.

No,

**Marty:** I don't think so either. In terms of Bitcoin, That's a big meme in the space is when you're gonna get dislocation from this high beta tech play that many people have sort of pigeonholed into. And I do think [00:53:00] this year has provided a lot of sort of themes that that highlight Bitcoin's value prop.

Particularly the bank runs, you have a billion dollars in a bank. And you have a run, uh, you need the Fed to step in or the F D I C or the treasury, whatever it may be. And that really highlighted like especially Silicon Valley Bank. It was interesting seeing some of the tech VCs and tech companies begin to open up to Bitcoin, like, oh, this is why you want this asset when no counterparty risk that you can actually hold because you don't have to depend on the other people you're, um, that are, uh, clients of the bank that you use, running with the money and creating a structural problem.

And on top of that, obviously I don't think people should buy it. I don't think it's a great way to get exposure to Bitcoin, but it is a strong signal that BlackRock did file for Bitcoin etf. At the very least. I think it shows that they have demand from their clients. It's like, Hey, I wanna get access. To this asset.

And then another thing that's really setting up for Bitcoin too is we have the [00:54:00] supply, the subsidy having coming up next year that that narrative's beginning to grow strong. People are really beginning to realize how, just how scarce Bitcoin is. Um, subsidy's gonna go from 6.25 to 3.125 next year. And I think that that jarring having of that subsidy really begins to seep in people's minds.

And then, um, obviously, On the fiscal side of things at the federal level, they don't have it under control. I mean, with the kicking of the can with literally no ceiling until 2025 and CBO coming out and estimating, yeah, that'll probably get to like 37, 38 by then. People have to be wondering, all right, what is this Bitcoin thing?

Then the energy side of things are that that narrative, even though many people don't get it yet, the energy companies get it, which is the most important thing, and I think a Absolutely.

**Luke:** Yeah. I

**Marty:** think we'll get to a point where the, like, they'll come out and be like, Hey, we're arguably the most important sector in the whole economy.

[00:55:00] We make it run like this is working for us. Like you have to get smarter on

**Luke:** this. Yeah, I, I agree entirely, and it's, the counterparty risk thing is still so early people, to me, the most mispriced. Narrative on the street, right? So we go back in time. The most mispriced narrative on the street today. Let me finish my thought.

The most mispriced narrative on the street today by far, it's not even close in my view, is US treasury bonds for the first time they have risk. They have con you either have credit risk, counterparty risk, or you have duration risk, inflation risk. But there is, in the absence of a tech or tech or energy productivity miracle, and in particularly energy productivity, miracle treasury bonds have risk and people, people just aren't thinking of it.

It's, it's, it reminds me of, of oh 3 0 4, even into oh five, where it's like, Hey, those subprime mortgage bonds. But these are looking a little [00:56:00] iffy. And, and at the time people said, look, they're AAA rated standard. And Poors and, and Moody's say they're AAA rated and no AAA rated bond has ever defaulted.

Okay, great. Except we now know that standard POS and Moody's were not entirely objective in terms of how they went about rating those, number one and number two, uh, they were, they, they were never AAA rated. They, like they were, they, they de fact that they were nominally but de facto they weren't if you would've really looked at them on their merits.

And so it, hey, the government has regulated bonds and you know, US treasury bonds and they being risk free collateral and, and you know, collateral trades and this. I get it. I get it. And do I think the US government's gonna default? No, I think there's zero chance of that. They'll print every dollar they need.

But that gets back to my point is we are in a, if, if you have, with the debt we have to GDP with the deficits we have at this point of the cycle, the fact that we're running 8% of GDP deficits with unemployment at [00:57:00] 3.6% is staggering. Staggering. Jason Furman had a great tweet last week where he noted.

Like historically, 3.6 on uh, uh, 3.6%. Unemployment has historically been akin to a balanced budget. Like the fact that we are running an 8% of deficit with 3.6% unemployment tells you it's the system is structurally broken. So you with debt this high, with deficits as high both as a percentage gdp, d p, when you layer on peak cheap energy in particular peak cheap oil, unless you have an energy productivity, miracle treasury bonds have risk, either credit risk, which I don't think is likely or duration risk, inflation risk.

And we, last year I think was just a warmup to that recognition, that realization. And I think as that realization hits by virtue of how things play out over the next year, uh, as I see them again without an energy productivity miracle, uh, [00:58:00] like that I think is really, really good for. All of a sudden, oh God, counter, I, I need an asset that both hedges, treasury, counterparty, risk and credit and duration risk.

What's, what can I own? Gold? Bitcoin? What else? I mean, another hard asset I think are gonna do well, but like, that's it. Like, it's a really short list. And, you know, uh, Hugh, he had a great point the other day in Bloomberg where he goes, Gold's 13 trillion market cap, Bitcoin's half a trillion. So like, if you wanted to play that with Alpha, you know, if you, you know, could Bitcoin, you know, he said on Bloomberg, could Bitcoin go to a trillion and half and be only the size of a, like I think it's already been there once, right?

I mean, if not close, um, yeah, you could triple it and, and still only be half the size of Apple. So I, like I said, I think the most underappreciated narrative by far on the street is treasury bonds have risk, credit risk or duration risk. And it's not credit risk, it's duration [00:59:00] risk. Um, And, uh, I think, I think we're gonna see that play out over the next 12 months, and I think that's really good for going Bitcoin.

Yeah.

**Marty:** No,

**Luke:** that's funny. And it's not just treasuries to be clear. It's not just treasuries, it's, you know, it's UK guilt. It can be. And that, you know, UK can go over the cliff first and all of a sudden, boom, the guilt market has a problem. Guess what? Like, first stop is a treasury market, but when the treasury, you know, some of that money's gonna go into commodities and, and, and bitcoin and gold and send an inflationary signal.

And that's only gonna make it, I mean it, if anything goes wrong anywhere, it's gonna go wrong everywhere on that front.

**Marty:** Yeah. It seems that everywhere think they're being held with chewing gum and duct tape.

**Luke:** Agree. The,

**Marty:** the, the seams are, are tearing. Uh, it's a scary landscape. You gotta be optimistic. We, we can fix this. I think, uh,

**Luke:** I think it'll get fixed. Like, to me it's never about like, oh God, the world's ending. It's [01:00:00] just like the world changes. The world changes, and sometimes it changes a lot really fast.

And so it's really all about how are you positioned, right? I, I think it's, we've had a 40 year bond bull market, and people think the next 40 years are gonna be another 40 years. Forget 40 years. People think the next five years are gonna be another bond bull market. Like May maybe. But I think that's a really, really low probability, uh, possibility.

Like I look back, there was a great article in the ft, um, I dunno, six months ago, I guess now, but it showed like going back to 1918, I guess it was 1912, digestible was this, for 80 years bonds had negative real returns on average. From like 1910 to like 1981 or two on average, you lost money against inflation for 80 straight years.

And then you're like, you had this [01:01:00] great 40 year stretch. And people are like, oh, well that's the normal. And you're like, well, no, no, it would, it's not. So like I think everything's be, everything always works out. I just think it's about a positioning, right. I think we're going through a monetary system change.

Monetary system changes tend to be good for commodities, hard assets, gold things with no counterparty risk and bad for bonds on a real basis.

**Marty:** Yeah. Now, and with the, the multipolar theme growing and you have Russia, China, Saudi, Iran, Brazil, all these countries teaming up like, all right, we're gonna settle our trades and our native currencies.

But even that, like, that just seems like temporary. Like how could you trust China to manage Yuan? Correctly. How could you trust Russia to manage of ruble correctly? Oh,

**Luke:** absolutely. Absolutely. And that's, I think it's, to me, with these multi, they're not gonna set it'll, it'll be gold. It's, it is, I think in the, in, in the intermediate term, and you're seeing this, you, you know, central Bank Gold buying was the highest in a hundred years [01:02:00] last year.

They've been buying for 10 years. You're seeing, I mean, you know, last month Russia bought gold as the ruble weekend as like that's a huge narrative. Like if they're running deficits, cuz we're pinching them. Why are they buying gold? Where are they getting that money from? Where they Right. So nobody trusts each other and there's a lot of four people don't trust the Americans anymore after we seized, you know, Russia's treasuries and for good cause.

Uh, when you don't trust anybody, you go to gold. You'll settle in gold. And people say, well, that's unwieldy. And it is, absolutely. I mean, we ship a, you know, a million bottles of water around this country in the back of a truck every day. So it's like, you know, it's not that much more unwieldy than that.

And it's easy enough to prove, it's like, okay, it's the proof of work. Like the whole world's going back to proof of work because of that breakdown of trust that multipolarity, which is, you know, Russia says, Hey, we'll sell in your currency, but then we want gold. We're gonna settle it in gold net at the central bank level.

Well, what happens if the gold doesn't ship? Then the next, then the next tanker [01:03:00] oil doesn't ship. Have fun, you know, as in, in arm, again, cuz you don't have the oil, your country's gonna tear itself apart. The gold will make its way there. You know, I mean, we did it for the Saudis after, you know, after World War II for a couple decades.

So yeah, send

**Marty:** them gold and gold with wings. Bitcoin, you know, I think, I think that's gonna,

**Luke:** it should be very, yeah, I mean when you look at it, you know, it's not held at the central bank level, but be, but. And that's why I think in the intermediate term, you probably, the first stop is probably gold. But I think ultimately, and quite honestly, I wrote about this a year and a half, almost two years ago, that like if the US wanted to counterbalance or counter, you know, sort of leapfrog what Russia, China, uh, Iran, or doing with gold, they would go to Bitcoin.

They would say, we're going to settle US deficits in Bitcoin instantaneously at a market rate. Boom, game set match [01:04:00] checkmate, it's over the, but there's a lot of political, uh, impediments between here and there.

**Marty:** Yeah. I mean, luckily, luckily for the US, US citizens hold the most amount of Bitcoin globally per capita.

I believe that status still correct. Is that right? Yes. Okay. And then the other thing, like Bitcoin has been talking about this for well over a decade, the gain theory of it all, like if you're a nation state, that's gonna get into bitcoin. You wanna keep it under the radar for a little bit because once a large domino falls, that's gonna incite like a mad dash, that's gonna significantly, uh, drive up the value of Bitcoin.

And again, this last 12 months has shown signs that this has happened in like the kingdom of Bhutan, very small country up in the Himalayas, but due to Celsius and Block Fi going bankrupt and came out in those bankruptcy proceedings that the sovereign wealth fund of the Kingdom of Baton had exposure to those companies and they had to come out.

Oh wow. Like, yeah, we're actually mining Bitcoin. We haven't since [01:05:00] 2020 and we're actually gonna double down on top of that, you have Russia essentially, um, using GAM prom, gas prom, excuse me. Uh, which is essentially a state run company, uh, partnering with mining companies to mine Bitcoin, gas proms, ex excess natural gas.

Obviously we have El Salvador. Um, but I, I do think we are at that stage where countries are trying their best to accumulate Bitcoin on the down low, uh, accumulate as much as they can before things get crazy. Um, so that they have some power on the other side of the mass price appreciation. Uh, but yeah, I wonder how how long that can be bottled cuz it just seems like more and more headlines are coming out every day.

We had Abu Dhabi come out and announce that they're doing a partnership with a publicly traded miner here in the us and I think that Oh, interesting. That theme is just gonna continue to, to, uh, get stronger throughout time. And it all revolves around mining. And any of these energy rich countries can just use their energy [01:06:00] sources to, to mine Bitcoin and get access to the network.

That way they don't even have to go out and market by. That's actually the best way for them to develop a stack under the radar. Just

**Luke:** to mine it. Yeah. You do it that way and then it, and it. It ultimately, I think on a first principle basis, it comes down to two things. It comes down to the counterparty risk and sovereign debt for the first time in 50 years, and it comes down to peak cheap energy, right?

Like if you are an energy rich nation, you cannot, you know, if the price of oil needs to rise eight to 10% per year for the foreseeable future, just to keep global supplies flat, just to keep global sovereign debt piles from, from, you know, the, the global sovereign debt market from beginning to, to, to go into a deflationary debt default spiral, then you can't put your surplus is in sovereign debt yielding three.

If oil needs to go up eight to 10, you're just better off leaving the oil in the ground and that just feeds on the problem. So yeah, [01:07:00] you, there's this debt peak cheap oil problem and it feeds into this counterparty sign you go, okay, gold or Bitcoin like gold or bed card. Yeah. And yeah, I think that's right.

You, you partner with the miners. I mean, Bitcoin does a lot of the things that gold does better than gold.

**Marty:** Yeah. It's a fascinating time to be alive, Luke. It is. It's always a pleasure having gone.

**Luke:** Thanks for having me on. I enjoyed our, uh, always enjoyed our conversation. Yeah, it's

**Marty:** uh, it's gonna be fun. Eh, fun is a, it's gonna be interesting.

Definitely. I think, uh, it'll be very, very interesting

**Luke:** ing. I hope it'll be fun, but it's

**Marty:** definitely gonna be interesting. Yeah. I don't think, uh, unfortunately I think most people aren't aware of everything going on, so hopefully they begin to pay attention. And again, I am optimistic. I do have hope cuz we have things like Bitcoin and gold to fall back on.

Um, And it, it's really empowering too. Hopefully. That's the other thing. We have like a [01:08:00] crisis and confidence in the institutions that got us to us this place. And I think that's probably one of the most important things that can happen is confidence in the institutions that got us here collapses. And people begin to realize like, oh, we can actually get out of this ourselves.

We don't have to depend on these institutions to do it for us.

**Luke:** Yeah. It's like what will, uh, will Rogers said in the depression, it's almost been worth this depression to see how little our big men know it's history's rhyming. Right. It's almost been worth all this to watch how little our big men know our big men and women, and they have demonstrated themselves of less 30 years to really, you know, they've, they've been weighed and come up wanting, yeah,

**Marty:** you have it in you freaks.

You can get yourself out of this mess. The tools are there. Luke, thank you for coming on. Hope you, uh, have a great rest of your Monday and we'll do this again maybe at the end of the summer or something like that.

**Luke:** Perfect. Yep. Have a great rest of your day as well, and, and we'll talk with you soon, my friend.

**Marty:** All right. Peace and love freaks.[01:09:00]