IGWT Report

From Trade Restructuring To Monetary Reset? – Luke Gromen debates Louis-Vincent Gave

We closed the gold window on Sunday, August 15th, 1971. I think we just closed the dollar window on Wednesday, April 4th.

Luke Gromen

- **At a time when severe distress is plaguing the global financial markets, Luke Gromen and Louis-Vincent Gave share their reflections on the epoch-making developments happening as they speak. To get a sense of what is happening in the markets, we delve into President Trump's high-stakes America First agenda and his plan to restructure international trade.**

- **The tensions arising from the White House's trade war is accelerating de-dollarization. This is a process that has been occurring for some time and is mirrored by the increase in demand for gold to be used as a monetary reserve.**

- **Not only have we witnessed a decline in the appeal of US Treasuries, which have historically been the backbone of the dollar's reserve status, but now the "Mag 7" tech stocks have been losing favor, too. Thus the question arises: What asset will now back the US dollar?**

- **Gold has been gaining recognition for its monetary functions, being positioned as a politically neutral reserve asset. The recent US policies appear designed to redirect foreign capital from Treasuries and tech stocks into gold, and there seems to be a historical precedent.**

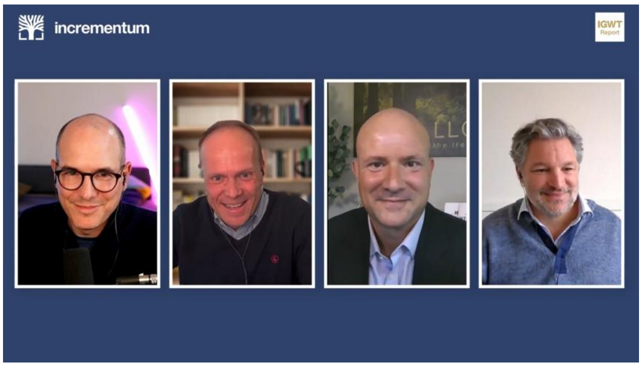
- **The risky strategy of simultaneous fiscal tightening and trade conflict now being carried out by the US administration may lead to a deep recession, not just in the US, but in the world. Because of the close relation between government revenues and equity market performance, there could be a crisis of confidence in Treasuries, possibly triggering a "sudden stop" scenario.**

- **While the US is now trying to pivot toward economic self-reliance, China has already endured a painful restructuring and is showing higher resilience. Still, the two opponents seem to be misjudging each other's weaknesses and strengths, creating a dangerous setup for miscalculation.**

Louis-Vincent Gave is the CEO of Gavekal, a Hong Kong-based company he co-founded over twenty years ago with his father Charles Gave and Anatole Kaletsky. Gavekal has grown to become one of the world's leading independent research providers to institutional investors around the globe. Louis has written seven books, the latest being *Avoiding the Punch: Investing in Uncertain Times*, which reviews how to build a portfolio at a time of rising geostrategic strife and when very low interest rates and stretched valuations on most assets announce constrained returns over the next decade.

Luke Gromen is the founder of FFTT, LLC ("Forest for the Trees"), a macro/thematic research firm catering to institutions and sophisticated individual investors. Luke's vision for FFTT was to create a firm that would address the opportunity he saw created by applying what customers and former colleagues consistently described as his "unique ability to put the big picture pieces together" during a time when they saw an increasing "silo-ing" of perspectives occurring on Wall Street and in corporate America.

The discussion between Luke Gromen and Louis-Vincent Gave, led by Ronald Stöferle and Nikolaus Jilch[1], took place on April 7, 2025, just a few days after Trump's *Liberation Day*, a day that is likely to mark a turning point for the world and the financial markets. The two well-known analysts discuss the implications of recent geopolitical and economic developments.



The debate addresses, among other things, the question of whether the US dollar will retain its status as a reserve currency in the coming years. The topic of the quality and attractiveness of US dollar-denominated assets inevitably comes up as well. In the end, both Luke and Louis provide investment ideas for this new and unfamiliar environment.

The reasons for Trump's protectionist policy were also discussed, with a focus on the infamous Mar-a-Lago Accord. In addition, the two well-known analysts consider whether the East-West decoupling will accelerate and which country or region will ultimately gain the upper hand.

The video of the debate can be viewed on YouTube here.

[1] Over the past few years, Niko Jilch has contributed numerous articles to the *In Gold We Trust* report. He works as a financial journalist and podcaster. You can follow him on www.nikojilch.com, X, and YouTube, among others.

Ronnie Stöferle
It's a great, great pleasure hosting two of my very, very favorite voices of the global macro world today: Luke Gromen and Louis-Vincent Gave. Gentlemen, thanks for taking the time.

Louis Gave
Thanks for having us, Ronnie. Great to catch up.

Luke Gromen
Thanks for having us on.

Ronnie Stöferle
We are very, very proud supporters and subscribers of both of your services. We deeply value your insights, your forward thinking, analysis on markets, on currencies, on geopolitical shifts, on commodities, on asset allocation. And today we'll examine the state of the US dollar, the future of gold, the evolving impact of Bitcoin, and the broader shifts in the world economy.

Basically, no one else on this planet is better equipped to guide us through these really critical themes and topics that we're facing today. So, it's a real pleasure. And I'm also joined by my dear friend Niko Jilch. He's a very renowned podcaster and he used to be the author of our De-Dollarization chapter in our *In Gold We Trust* report for many, many years. Niko, thanks for taking the time as well.

Niko Jilch
Hi guys, it's a pleasure.

Ronnie Stöferle
So, I have to say that today is April the 7th, 2025. Quite a lot of things happened over the last couple of days. We had the so-called *Liberation Day* – and I'm sure that whenever you will listen to this interview, quite a lot will have happened in the meantime.

I think it's perfectly normal for the reserve currency of the world to run a current account deficit with other countries. And basically, as we all know, there's just one big deficit, which is US with China. I think the rest are basically peanuts.

Therefore, we really want to take a step back and analyze the broader implications of what's currently going on. So, let us start with the big elephant in the room, which is basically the US dollar being the reserve currency of the world. **I think it's perfectly normal for the reserve currency of the world to run a current account deficit with other countries. And basically, as we all know, there's just one big deficit, which is US with China. I think the rest are basically peanuts**.

So, the big question from my point of view, with all those developments over the last couple of days and weeks, is, will the US give up this exorbitant privilege? Will they give up the role of the US dollar as the world reserve currency? And taking a step back and analyzing the big picture, gentlemen, do you think that the US dollar will still be the world reserve currency in five years?

The other side, the side I tend to agree with, I hold up the dollar share of global FX reserves overall of just currencies, and it's gone from, call it, 70% share to 50, low 50% share over the last 15 years or so. And if you include gold into that, that market price, the dollar share of global FX reserves is under 50% now.

Luke Gromen

I think it depends how you define it, because when I get in these debates or these questions, one side says, *It's still used in 90% of global transactions, it's still dominant*; which is true. Then, **the other side, the side I tend to agree with, I hold up the dollar share of global FX reserves overall of just currencies, and it's gone from, call it, 70% share to 50, low 50% share over the last 15 years or so. And if you include gold into that, that market price, the dollar share of global FX reserves is under 50% now**. So, in terms of usage, if that's how we want to define the debate, I think yes, it absolutely will still be the primary or one of the primary used currencies in the world.

But, at the FX reserve level, I think in five years, the dollar's share is going to be below 50%. And when you add gold in there, I think it's going to be well under 50%, because I think what we are in the early stages of watching is a messy attempt to basically restructure the system in a way that gold runs the deficits, so to speak, instead of the United States. And there's huge executional risk and volatility associated with that. But that's where I see it going. So, I think it's those nuances that are important to kind of define and lay out.

Just as equity markets have really been horrible this past week, US Treasuries have really done nothing, for all intents and purposes.

Louis Gave

I don't disagree with anything that Luke just said, which I know for the purpose of this conversation, I fear that Luke and I agree on a lot more than we disagree on. I just want to add something, going back to your question on the reserve function. For me, one of the more important developments is that if you look at the past four years, you've had four consecutive down years on US Treasuries. **And just as equity markets have really been horrible this past week, US Treasuries have really done nothing, for all intents and purposes**. I think the TLT is actually down today.

If I'd been on a sailboat sailing around the world and if all I'd had was the TLT price, I would think things are fine. I'm not missing anything. It's like up or down 1% a day. I'm like, sail on. Nothing's happening in the markets. And I highlight this because I think what's happened in recent years is actually very important.

Behind the US dollar was always the US Treasury market. If you had excess dollars, if you were Saudi Arabia, China, Japan, whoever, if you had excess dollars, you bought US Treasuries. And in the past four or five years, that's no longer been the case. You had excess dollars, you didn't want to buy US Treasuries. You didn't want to buy US Treasuries for one of two reasons. Either you were afraid that they would get confiscated, if you're China, Russia, or essentially any non-democracy, or you were just looking at the US following extremely expansionary fiscal policies even in the face of low unemployment. It's like, *Why would I own bonds when you're adding two trillion a year into the supply?*

What's happened in recent years is, instead of owning Treasuries, people abroad who had excess dollars decided, *Forget Treasuries, I'm just going to buy the Mag 7; I can buy Microsoft, I can buy Apple, I can buy Google*. They've got great liquidity. These are trillion, two-, three-trillion-dollar companies. They're actually better than Treasuries because they've got an inflation hedge embedded in them.

I run a small business; we run everything on Microsoft. Every year Microsoft hikes our prices by 15% and every year we pay it because we don't have much of a choice. So, everybody said, *You know what, Mag 7, that's the new US Treasuries*, and I think this is the shift that is occurring right now. People are realizing US Treasuries are no good. Everybody agrees.

But now all of sudden there's a realization, *Hold on, is Mag 7 that great?* They just spent hundreds of billions supposedly on AI, and that's probably going to be a massive write-off. They're about to get taxed, not only by the US administration but by the foreigners as well, as part of this new trade war. So, their margins aren't going to be what I thought they were.

For me, that's the shift we're going through right now. To have a reserve currency you need to be backed by an asset that people want to own. If I'm going to save in dollars, you've got to give me dollar assets I want to own. I don't want to own Treasuries, and I'm no longer that sure about Mag 7.

The US makes stuff up. That's the US comparative advantage. They're the best financiers in the world. So, you don't want a Mag 7. Don't worry; we've got something else sexy for you.

Now, you could say it doesn't matter, the US is great at coming up with the next thing. It'll be mortgage bonds, it'll be something. **The US makes stuff up. That's the US comparative advantage. They're the best financiers in the world. So, you don't want a Mag 7. Don't worry; we've got something else sexy for you**. There it is. I don't know what that something else is right now. I think Treasuries are done; I think Mag 7 is done. So, what's the next asset that's going to back up the US dollar? Not convinced.

Niko Jilch
Luke, you said "Gold is going to run the deficit." Could you explain that? Is gold the next asset that's going to back up the dollar? Is this also the reason why we're talking about a Bitcoin reserve right now?

Luke Gromen

When we had this America First Investment Policy memo, February 21st – it's a significant paraphrasing, but it said, China, take your money and go home; we don't want you here anymore.

I think the way Louis framed it was really… it's a great lead into this, because you're seeing for political reasons here, around the Trump administration and what they ran on and their electoral base, the steps taken by the administration, already year to date, have effectively told China, *we don't want your money in the Mag 7 anymore*. **When we had this America First investment policy memo, on February 21st – this is a significant paraphrasing, but it said, *China, take your money and go home; we don't want you here anymore***.

When you look at some of the proposals of the head of the Council of Economic Advisors, Stephen Miran, within that piece that he wrote about the reordering the global trading system, he talked about, and more importantly, this Trump America First Investment Policy memo explicitly discussed, bringing back a tax on Treasuries that China had been exempt from this whole time.

So, you're talking about raising the cost of carry on Treasuries. You're talking about raising the cost of carry on foreign capital. And for the US's purposes, by far and away the biggest trade imbalance we have is with China. So, the actions of this administration have essentially been, to Louis' point, what is going to be the new, next thing to sort of back the dollar.

Additionally, curiously, within all of this trade war, there's one thing that didn't get tariffed in all this, and it was gold.

And the political side of it is, *We don't want foreigners buying our companies anymore; we don't want them buying our farmland anymore; we don't want them; they need to buy something else*. **Additionally, curiously, within all of this trade war, there's one thing that didn't get tariffed in all this, and it was gold**. The Trump administration made a point of not tariffing gold. If I just look at it as a straight, relative comparative, I'm going to have cost to carry up significantly, versus what it was on Treasuries, on Mag 7, on stocks. And if I'm China or other US trade creditors, the cost to carry on gold, in that context is nothing.

What I think is being brought back is something that was discussed in the '70s. You can find it in declassified State Department documents with Kissinger and Volcker, where they were having a similar problem. But the problem wasn't the Chinese buying up too much of America and Europe, then. The problem was the Arabs, given what had happened to oil.

The proposal at that time, floated by certain interests in the European community, was let them buy gold that floats at a market price. Basically, recycle the "petro" surpluses into gold, drive gold prices up; and that way they have – and this is going to sound very familiar to what we're dealing with and what Louis just laid out – absolute national control over their reserves, because the gold will be in their vaults, in their country, inflation adjusting because it's gold and it prevents excess Arab ownership of Western industry. It's literally the exact same problem from a flows perspective that policymakers are trying to address today, at least as they see it as a problem.

When I say gold will run the deficits, ultimately, I think what we're going to see is the price of gold… basically, **these flows that went into Treasuries and then stopped, and then went into Mag 7; I think we are in pregame warmup, not even in the first inning of these flows going into gold**. As they do, you're talking about trillions in flows into an asset that's now up to a USD 20trn market cap.

When I say that gold is going to run the deficits, gold is going to be the neutral reserve asset, in my opinion.

But, there's still only new flows of USD 250bn year. **When I say that gold is going to run the deficits, gold is going to be the neutral reserve asset, in my opinion**. The Trump administration appears to be attempting to construct a set of incentives to redirect foreign capital, that first went to Treasuries and then to Mag 7, as Louis noted, into gold going forward.

Ronnie Stöferle
What's currently happening? Basically, it sounds a little bit like the wet dream for every gold bug. I mean, there's Luke now talking to Tucker Carlson about gold and explaining to him what gold means. We've got Scott Bessent saying that he's actually a gold bug. We've got things like an official audit of Fort Knox being discussed.

Louis Gave

Sure. You're right. It does seem to be a wet dream. And yes, when you start to see everything in the general media, then you get indeed to the question that Luke raised: Are we in the warm-up phase? Are we in the fifth inning? Are we in the ninth inning? I think the challenge today, if you're a gold investor, is the very question we're discussing, and it's whether it's different this time.

At this stage, to get fired up about gold here, you have to make the argument: It's different this time.

Because, if you take a step back, you think gold relative to pretty much every commodity, whether energy, whether copper, whether silver, whether anything, gold today is expensive; gold relative to average hourly earnings in the United States or the price of US real estate. Gold is at the upper band of its historical trading zone against pretty much anything you care to look at. **At this stage, to get fired up about gold here, you have to make the argument: It's different this time**.

There's a lot of reasons to think that it is different this time; don't get me wrong. Of course, anybody who's not a seasoned investor, when they see a very stretched valuation, they're like, *Don't worry about it, it's different this time*. That reminds me of NASDAQ 2000, or it reminds me of, frankly, of AI just like 10 minutes ago. It's like, *Don't worry; buy Nvidia at 50 times sales*. It's like, *AI is going to change the world; don't worry about it*. So, as gold investors – and all of us here have been bullish gold – we have to acknowledge that valuations are getting stretched.

If you are a foreigner and you've got a bunch of US dollars and for years these US dollars were either going into US Treasuries or US equities, that was great and that did fine. Then, US Treasuries stopped working and now US equities are not working.

So, here it really depends on the global fundamental environment changing. I do fundamentally believe that today, **if you are a foreigner and you've got a bunch of US dollars and for years these US dollars were either going into US Treasuries or US equities, that was great and that did fine. Then, US Treasuries stopped working and now US equities are not working**. Now I'm like, *what do I do with these dollars?*

One option indeed is, *You know what, the world is a really uncertain place; I don't know what I'm going to do; I'm just going to buy gold*. I think that's what people in China have been doing. That's what people across the Middle East have been doing, and in India and lots of places.

There is of course the alternative. It's like, *You know what, my local assets are actually really attractively valued now*. If I'm a rich Chinese guy – real estate affordability in China is today at a 25-year high. Real estate has never been this affordable. Prices have come down; mortgage rates have collapsed. There's been no new supply for five years. So, maybe I'm like, *You know what, maybe this is worth a punt*. Or, if I'm a rich Middle Eastern guy, maybe I'm like, *European stocks are cheap and Chinese stocks are cheap*, and so on and so forth.

There is no doubt that the overall willingness of people to stay in the US is probably decelerating very, very fast. This is not a political statement; it's just a reality.

There is no doubt that the overall willingness of people to stay in the US is probably decelerating very, very fast. This is not a political statement; it's just a reality. If you're a foreigner and you're looking at the US, you think, *What a dumpster fire, and what am I going to do with all these dollars? Do I still feel comfortable owning stocks in the US that are at the end of the day very expensive relative to stocks anywhere else? Maybe I shift them to* *gold; maybe I'll move to stocks outside the US; maybe I'll move to real estate outside the US*. There are other alternatives to gold, but gold is up there.

Niko Jilch
Luke, you talked about this discussion in the '70s, with Kissinger. I highly doubt that anybody in the US administration has read any transcript from that time. Do people still understand what gold really is? What role could gold play? Because last time I checked, it was a "tradition". Bernanke called it a tradition.

Luke Gromen
I do think there is still, at a certain level, an understanding of what it is and how it can be used. I do believe that. And I've, in various conversations, gotten certain levels of confirmation or comfort around that.

Niko Jilch
Louis, maybe can you give us the perspective from China.

Louis Gave
I was about to jump in after Luke said this. When Russia was kicked out of the US dollar, the euro, the Swiss franc, etc., obviously its trade with China went through the roof. Essentially, everything that Europe used to export to Russia, be it machine tools, be it cars, tractors, you name it, is now being exported by China.

If they truly believed that by imposing financial sanctions on Russia, they would turn the ruble into rubble and absolutely collapse the Russian economy because, lo and behold, it didn't have access to dollars, then I think they've just been reminded that, actually, if you have gold, you can settle your trade.

To the point of: do people still know what purpose gold serves? A lot of that trade ends up being settled in gold. If they had forgotten, if they hadn't read the Kissinger papers, **if they truly believed that by imposing financial sanctions on Russia, they would turn the ruble into rubble and absolutely collapse the Russian economy because, lo and behold, it didn't have access to dollars, then I think they've just been reminded that, actually, if you have gold, you can settle your trade.** You can buy stuff from abroad.

Gold does flow across borders pretty easily. You can move a lot of wealth around and in not too much space. And it allows trade to flow.

Gold does flow across borders pretty easily. You can move a lot of wealth around and in not too much space. And it allows trade to flow. So, in case they had forgotten, to answer your question, the past two or three years of Russian sanctions just reminded them.

Ronnie Stöferle
Gentlemen, one major topic has changed over the last couple of days. On Wednesday, when the tariffs were announced, everybody thought we're having some sort of a further recalibration of portfolios, which will move assets out of the US into Europe. But, then I think over the next two days, it basically changed, because markets started to price in a US recession, but to some degree also a global recession.

Back in the day, we always said if the US sneezes, the whole world will catch a cold. Louis, you have got a very, very pronounced view on how less dependent China is on the US anymore. Would you say that we could see a US recession without moving into a global recession? Is that actually possible?

Louis Gave

Well, it depends how bad the recession is in the US, of course. And if it's a fairly shallow recession, then yes, it's absolutely possible. Right now, the US is trying to do, at the same time, fiscal consolidation, which arguably was very necessary. But it's saying, *We're going to do fiscal consolidation, and we're going to massively rearrange our trade relationships*, which, essentially, is saying, *We're going to crush the US consumer*. Because saying, *We're going to reduce our trade deficits* is saying *We're going to put the squeeze on what is 70% of our economy*.

Fiscal tightening at the same time as putting the squeeze on the US consumer – that's probably quite a recession.

When you look at it this way, you have to think that's quite a recession. **Fiscal tightening at the same time as putting the squeeze on the US consumer – that's probably quite a recession**. You could say that what's unusual about this one is that it's almost self-inflicted, right? It's a policy choice by the United States to go down this road. Somewhat similar, frankly, to what China did between 2018 and 2024. Once the US said, *We're going to put restrictions on exports of semiconductors to China*, China said, *OK, fine; from now on, no lending to the consumer, no lending to real estate; all the money goes into building up industry because the US is trying to take us down; today it's semiconductors, tomorrow it could be auto parts, could be chemical products; we have to be self-sufficient in everything; so, all the money we have is going to go into industry*.

Now, it definitely led to a collapse in real estate; it led to a collapse in Chinese growth. Sure, they reported 4-5% GDP growth, etc. But underneath that, you had a collapse in consumption. Underneath that, you had the collapse in real estate. You had huge write-offs at the banks. It was a period of pain, but China's trade surplus did move from USD 200bn to 1.1trn.

When you look at what the US is proposing, it's essentially what China did back then.

When you look at what the US is proposing, it's essentially what China did back then. Now, China did this and there wasn't a recession in the rest of the world. Even though it's the second biggest economy in the world, it didn't unleash a recession onto everybody else. Sure, if you were a commodity producer it wasn't much fun. If you were dependent on luxury sales into China, if you were LVMH, etc., it wasn't much fun. If you were in Hong Kong, dependent on Chinese tourism, that wasn't fun at all.

But, China went through it and now China is entering into a different phase. If the US proposes to go down this path, I think it's going to be pretty tough for everybody, because, in recent years, so many businesses around the world, countries, etc., have just grown accustomed to the idea that the US consumer was 70% of GDP, and that you just sold to the US consumer almost regardless of what happened.

So, if the US really is now saying, We're going to crush the US consumer, we're going to build our own industry – I'm very skeptical of their ability to do it, both politically and just physically of the ability to do it.

So, if the US really is now saying, *We're going to crush the US consumer, we're going to build our own industry* – I'm very skeptical of their ability to do it, both politically and just physically of the ability to do it. But if that's really the path of policy, then what does that mean if you're a European, Mexican, Chinese industrial and you've spent the past 20 years being used to selling to the US consumer? Now, not only are you going to lose that client, but you're going to gain a competitor. That doesn't seem like a super great recipe for growth, for investment, for risk-taking from the private sector, anywhere in the world.

Ronnie Stöferle
So far so good, one could say, because Treasury yields are down, the US dollar is down big-time, and the price of oil is down, of course.

Louis Gave
Are they down that much, though? Are you rushing out to borrow money, now that bond yields have come down like 30–40 basis points?

I would say this detox period that he was referring to, it sounds great, but it's like the heroin addict who also has a cocaine and alcohol problem and a gambling addiction, says, OK, I'll stop it now; I'm becoming an Ironman and I'm becoming a vegan now.

Ronnie Stöferle
No, no, I agree. **That's kind of cherry picking by Scott Bessent. I would say this detox period that he was referring to, it sounds great, but it's like the heroin addict who also has a cocaine and alcohol problem and a gambling addiction, says, *OK, I'll stop it now; I'm becoming an Ironman and I'm becoming a vegan now*.** It sounds… not very realistic from my point of view. But the question is, when will the pressure from markets be actually too big? And the pressure on the Federal Reserve – because Trump was very quick putting some pressure on Mr. Powell and Powell said, *Not going to happen*.

But the big question for me with this pressure that has built up over the last couple of days is, do they really have the stamina to say, *We'll work through this; we don't care about markets; we don't care about equity markets, we don't care about what's currently probably happening in private equity, in debt markets, with corporate spreads blowing out*? I just don't really see that. I think it sounds great in theory; but in practice, I don't know. Luke, what would you say?

The United States has 120% debt to GDP. The deficit is what it is. It's an economy, as we've shown in our work, that is highly sensitive to stock prices. Stock prices go down, receipts are going to fall.

Luke Gromen
I think the executional risk is the huge part of the risk, and they're almost between two trapezes, where they're kind of letting go of the trapeze of the old world and flying towards the next one on the come. China was able to do this and they still had, however, many hundreds of billions of dollars a year coming in from, as Louis said, their trade surplus. In that time, it went from USD 200-something billion to a trillion plus. So, you've got capital flowing in throughout that whole process for them. **The United States has 120% debt to GDP. The deficit is what it is. It's an economy, as we've shown in our work, that is highly sensitive to stock prices. Stock prices go down, receipts are going to fall**.

And your interest and interest-like obligations in the United States – that is gross interest expense, plus entitlements, plus Veteran's Affairs – are 108% of all-time high receipts, already as a starting point. And now receipts are going to fall pretty sharply in the next six months, with just what stocks have done. If stocks stop falling today, on April 7th, your receipts are going to be down, in all likelihood, by 5 to 8% by later this summer. I agree with Louis that the US appears to be trying to do what China did, but they're trying to do it from the diametrically opposite capital flow position. At the same time, they're effectively scaring the capital they need out of the US markets.

What I mean by calling their bluff is that the unthinkable is suddenly very thinkable in the United States.

As we sit here, April 7th, I think we are weeks, at most, maybe days, from the markets basically calling their bluff. **What I mean by calling their bluff is that the unthinkable is suddenly very thinkable in the United States**, which is an emerging market-like sudden-stop crisis. Today, April 7th, the 10-year Treasury yield was 3.9% when I went to bed, with stocks down big. And I wake up and the 10-year Treasury yield's flat. Now, as I jumped on this call, the 10-year Treasury yield is up 15 basis points. So, Scott Bessent and Trump have since February 26th knocked the S&P down by about 18%. That's USD 11trn in wealth out of the stock market. And they got 12 basis points since February 26, 12 basis points. I think it's very possible that by the end of this week they will have gotten zero basis points with even more stock declines. And by next week, they will have rates up with even more stock declines. And then what do you do? Does the Fed come in and cap yields? Because...

Louis Gave

Can I hop in here? Because I think one important point is that one of the reasons Bessent has been so laser-like focused on getting yields down was – perhaps not as much the massive amounts of debt that the US government has to roll over, that's part of it – but US corporates have an amazing amount of debt as well. Remember that in the second half of 2020 and the first half of 2021, you had record debt issuance by US corporates because, back then, you're just post-COVID, you're reopening, interest rates are at zero. If you're the CFO of a listed company or even a private company, if the market's going to give you free money, it'd be criminal for you not to take it. They all took the money.

You look at the corporate debt issuance; it went absolutely through the roof. And what did they do with that money?

You look at the corporate debt issuance; it went absolutely through the roof. And what did they do with that money? Did they build a bunch of factories that would allow them to pay back the money five years from now? Because in the US, when you issue debts, it's 5-year paper. What did they do with that money? They all bought back shares, in spades.

Let's get yields down. Roll over all the debt. Once the debt is rolled over, we cut taxes and we goose up the economy just in time for the election.

Fast-forward five years, i.e. right now, and you're looking in the second half of 25, first half of 26, at record-high corporate debt rollover. That's why the administration is, like, *we've got to get yields down!* If you don't, when you roll over paper on which you paid one, and now you're paying six, then you're going to cut your capital spending, you're going to cut your employment to make sure you pay your debts. All of a sudden, you're looking at a recession, just in time for the midterms. So, I think that was the game plan. **Let's get yields down. Roll over all the debt. Once the debt is rolled over, we cut taxes and we goose up the economy just in time for the election**.

So, you're now in a scenario where actually the debt rollover costs, instead of going down for your corporates, are actually going up.

This scenario is now going wrong bigly. It's going wrong bigly because instead, as Luke points out, you've lost 12 basis points on the 10-year. Sweet. On the flip side, you got spreads that have grown by 40 basis points. **So, you're now in a scenario where actually the debt rollover costs, instead of going down for your corporates, are actually going up**. The more the economy slows, the more that's going to be the case. And so, it starts feeding upon itself.

That's another difference between what China did six years ago to where the US is now. In China, you don't have much of a corporate debt market. Most of the corporations fund themselves on bank credits. As China was going through this transition of saying, *For the next five years, all we're doing is industry*; *central bank cut interest rates*; and the banks were told, *You're lending at this price to these guys*.

This is of course a different system. The US doesn't have that luxury. Trump can't turn around to JP Morgan and tell Citibank, *Roll over the debt for all these guys at that price because otherwise our economy is going to implode*. It's just not the way the US works. So, I do think that there was a game plan and it's gone wrong.

Instead, now the US is stuck in this tit-for-tat with China, and the big question mark every investor now has is, *Hold on? Is it China that's going to be isolated or is it the US that's going to be isolated? They're raising tariffs on each other. Who is actually more vulnerable now?*

If bond yields start to rise in the US, what do you think China does with its trillion dollars of Treasuries?

The market's perception is, of course, China's more vulnerable and the US isn't. But, **if bond yields start to rise in the US, what do you think China does with its trillion dollars of Treasuries?** And as the trade war keeps getting worse, does China say, *Yeah, ship me in some more Treasuries*? Or do they call JP Morgan and say, *Hey, what's the price for 100bn? OK, yours, done. What's the price for the next 100bn? Yep, yours, done*. What are the odds of that scenario happening? I think the odds of that scenario are decently high.

Luke Gromen
Something that hit me over the week and I was thinking about: It was, what I'd been very vocal advocating, that there's an order of operations that must be respected, if the US is going to try to restructure in the manner that you highlighted earlier, Louis, which is you've got to devalue the debt first, if you're going to do this. And they didn't.

He is going to beat on those ribs until they submit. The broken ribs in this case are the debt for the US, which is going to feed on itself.

So now, because they didn't, to Louis' point, this is like an MMA fight, where one fighter knows the other fighter has badly broken ribs. What is he going to do? **He is going to beat on those ribs until they submit. The broken ribs in this case are the debt for the US, which is going to feed on itself**; and sort of everybody in the markets knows that.

People that manage books to a monthly or quarterly, there's no national interest there. All they care about is their job. And if the market starts going against them, they're going to start trading with the Chinese on that. They will start selling Treasuries. So, the US administration is in a very delicate situation because, for whatever reason – I understand the political difficulty in doing so and some of the mechanical difficulties – they needed to devalue the debt first before they tried to do this. And they didn't. So now they're in real trouble.

Something we were talking about before we jumped on this weekend that I think further accelerates [this development] is that, to me, the market isn't waiting appropriately, relative to Louis' point, around who's got the leverage at this point. China just put export controls on rare earths, on Friday. Then, on Sunday, they came out and said, *We won't interrupt any flows to anybody that doesn't side* *with the US against us; but we're only going to do this in the interest of peace and stability*.

Without rare earths, the only thing Japan can send me is a TV box that doesn't work. A computer that doesn't work. We can't send missiles to the Europeans, not without rare earths.

I reached out to some friends in China. I said, is this the Chinese way of saying, *We're cutting off rare earth shipments to the United States military*? And they said, that's probably a pretty fair interpretation. So now, things are getting really intense, because if you side with the US, if you're Japan – we've seen some highlights around Vietnam and Japan – *Hey, we want a trade deal*; the EU, they want a trade deal. Great. **Without rare earths, the only thing Japan can send me is a TV box that doesn't work. A computer that doesn't work. We can't send missiles to the Europeans, not without rare earths**.

There's this intense understanding from what I'm watching that the Chinese understand leverage points, on the second derivative and third derivative, in my opinion, far better than US policymakers. The math on the debt side is what the math on the debt side is, and it is going against the US fast. And now you've got it on the trade side and on the real-world goods side and the geopolitical side. I don't know if it's going outright against the US yet, but there is certainly an overriding consensus about how this is going for the US.

Ronnie Stöferle
So, if we say that there's this MMA fight, China versus the US, China's strategy would basically be to stand firm, to resist and just wait for Trump's strategy to collapse. And it seems that actually China has a little bit more economic resilience, because they are actually facing more of a deflationary environment, currently. But the US might be facing a stagflationary development. Would you agree with that?

Louis Gave

China's been getting ready for this fight for the past eight years.

I definitely agree. **China's been getting ready for this fight for the past eight years**. That's the truth. When the US said no more semiconductors to China, it was a super-important moment for China. This was when China decided, *Okay, we're at economic war with the US; they've just fired the first salvo; now we get ready*. Now, I don't think the US perceived it in that way, but in China it was very much perceived in that way. It was like, *We've got to get self-sufficient in everything; we have to control every single industrial vertical*, etc.

The US didn't do this, to Luke's point. Once you told China no more semiconductors, the US should have said, *Let's spend a lot of money building up our own rare earths in Nevada or in Idaho or in Canada*. Wherever you can find rare earths, because there are some all over the North American continent and in Australia. So, the US at that point should have said, we're now at economic war. But the US didn't. China did. And so that's the situation we're in right now.

Let's take a step back and also look at the leadership that you have in both countries. Xi Jinping is a guy who would have spent five years during the Cultural Revolution digging the earth with his bare hands in order to survive. He would have seen his friends, siblings, etc., literally starved to death. He's gone through a level of hardship that none of us on this call can even begin to understand or comprehend. I highlight this because I think that an entire generation of leaders in

China today is capable of taking a lot more pain than any of us. They did go through the Cultural Revolution – that was a horrible, horrible period.

Obviously, they're now at each other's throats; and in any kind of negotiation, when you do a business deal or something, the worst setup is always when you think the other guy is weaker than he really is.

But this is where it gets interesting. The Chinese population has been taking pain for the past five years. They've had their real estate prices drop 30%. They've had no wage increases for the past five or six years. They've already taken on some adjustments in a way that the US just hasn't. I think, **obviously, they're now at each other's throats; and in any kind of negotiation, when you do a business deal or something, the worst setup is always when you think the other guy is weaker than he really is**. That's the worst setup, because when you think you have all the cards and you think the other guy is weak, that's not a good setup to get a deal done.

This whole media push of China is weak, it's about to implode, is so far from reality. You go to China today, you feel this is where the future is being built.

For the past five to ten years, all the media in the United States – and I keep writing about this – have kept saying China is about to collapse. It's this house of cards. You flick it and the whole thing is going to implode; it's on the verge of revolution, etc. **This whole media push of *China is weak, it's about to implode*, is so far from reality. You go to China today, you feel this is where the future is being built**. They've got flying cars; they've got trains that go at 450 km/h; they've got 6G telecoms. Literally, the engineering discoveries are all happening over there now. But, the perception is that China is about to implode.

Meanwhile, if you go to China, their perception is that the US has zero tolerance for pain. The US is fundamentally just about having a good time. Which I'm not sure is true either. I think the tolerance for pain in the US is actually quite high. The US is fundamentally a warrior nation. All this to say that as I look at it, both sides completely overestimate the other guy's weakness and underestimate the other guy's strength. It's a terrible setup for any kind of compromise.

Niko Jilch
One thing that is completely baffling is that we have the world superpower basically trying to inflict this pain on itself. And the story that we hear in Europe is that Trump is crazy, Musk is crazy, everybody's crazy. At the same time, we know it's working to some degree, because even in Europe now, we come to the table, we do deals. The EU is taking back its own laws and it's calling it regulation, which is funny because nobody's really recognizing this. But it's happening on a daily basis now. So, it's working in some way.

Are they trying to basically let the air out of the stock market before it can collapse and then maybe try to collapse the yuan first?

I would like your diagnosis of what their point of view is. What are they really doing? **Are they trying to basically let the air out of the stock market before it can collapse and then maybe try to collapse the yuan first?** China first? Is that the MMA game that they're playing here?

I think the levels of pain tolerance in the US are sort of bifurcated, in the same way our society has been bifurcated.

Luke Gromen
I think so. **I think the levels of pain tolerance in the US are sort of bifurcated, in the same way our society has been bifurcated**. We've got the 1%; we've got everybody else, based on the policies of the last 30, 40, 50 years. And it's interesting that we just had a famous billionaire come out on Thursday and say, *Hey, the best negotiations happen when the other party thinks you're*

crazy; so, this might work great. And three days later, that same billionaire is like, *Hey, hey, whoa, maybe we need to pause tariffs for 90 days*. So, his pain tolerance was exactly 72 hours. You come out to flyover country and…

Louis Gave
I think you mean 10% on the S&P, more than three days. The pain tolerance was 10% on the S&P.

Luke Gromen

You go to enough funerals for 18-year-olds that have died of fentanyl overdoses – there've been a million people dead in this country of drug overdoses alone.

Exactly. Right. Yeah, exactly. So, for the 1%, I think that's our pain tolerance and spreads blow out. And I think for, sort of flyover country, the bottom 50%… Louis, you and I have been out here in Cleveland before together. **You go to enough funerals for 18-year-olds that have died of fentanyl overdoses – there've been a million people dead in this country of drug overdoses alone**. Then, you factor in suicide, you factor in alcoholism; the death rate per 100,000 of middle-aged Americans is not that far below the death rate of Russian men in the 1990s. And this is not understood in Europe at all.

I was there last summer. People were kind of asking me ahead of the election, *What's going on? Why do you Americans like Trump so much?* Because everyone in Europe, at least in the part I was in, was going *Trump bad, Trump bad, Trump bad*. I said, listen, here's what's going on. And when I told people that the death rate among middle-aged American men, and particularly white men and African-American men, is near where it was in Russia in the 1990s, they went, *Wait, what? in America?* I was like, *Yeah*.

So that part of America – we're sort of in that scene from *Good Will Hunting,* right? When the dad sets down the belt, the stick and the wrench and Robin Williams says, *In that case, I got to go with the belt*. And Will's like, *I always took the wrench because F him; that's why*. So, there's this bifurcated level of pain tolerance in this country around what's happening, where I think the 1% is like, *My God, enough, uncle!* And the rest of the country, the bottom 50% is like, *Burn it down; take the S&P down another 10!*

Some of them know that, if the S&P goes down another 10, 20, 30 from here, they're going to start getting layoffs. And if tariffs go up, they're going to get layoffs. You're already seeing it in Michigan. But that's, to Louis' point, a miscalculation where these people are like, *I got nothing to lose. Burn it down.*

We've had a million people die of overdoses alone in the last 15 years. How much worse can it get?

So, it sets up, to Louis' point, this very dangerous situation because half this country is, like, *Hey, burn it down*. **We've had a million people die of overdoses alone in the last 15 years. How much worse can it get?** The answer of course, is that it can get worse; but there's this bifurcated pain tolerance in the US. Critically, the side with the higher pain tolerance is Trump's base.

Louis Gave
That's such an important point by Luke, because that's the same split that you saw during the Brexit vote in the UK. The politicians were going around like the whole "Project Fear" during Brexit was, we're going to tell people that they're going to lose this and they're going to lose that. And the Brexit voters would say, *You know*

what, I've lost everything already; what do I care at this stage? I think our societies are bifurcated that way.

In this US-China trade war that's now full-on, especially after the imposition of another 50% [tariff rate] today by Trump, the global perception at this stage is that Trump is the aggressor. I don't know if that is a fair assessment, actually, because you can say, well, China manipulated its currency for years and China's running a USD 1.1 trillion trade surplus, which is ridiculous, etc. Nonetheless, the perception is that the trade war was started and Trump is the aggressor.

Right now, Trump is playing offense on trade. If he doesn't get some big victories, then what is it all worth?

In any military conflict, it's always easier to play defense than to play offense. When you're playing offense, you're the one who needs to move forward, because if you're not moving forward, essentially, you're losing, you're not getting victories. On defense, all you have to do is hold your line. **Right now, Trump is playing offense on trade. If he doesn't get some big victories, then what is it all worth?** What's the point? And then you ask yourself, what do the victories look like?

A win for Trump is for this to stop. Whether that is going to occur in the next year or two, seems unlikely to me.

You can say, this weekend Zimbabwe said they were getting rid of all tariffs. Okay, great, here's a victory. But, you know, deep down, the victories... again, what do they look like? Why is Trump doing this? I think he's doing it because the welfare state, as it's built, no longer works. Partly because the Apples of this world, essentially, can decide their tax rates. It's like, *We'll do all the manufacturing in China, book the profits in Ireland, and pay no taxes*. Then Google does the same thing, and Facebook does the same thing. And a few years down the road, you end up with your industrial workers, to Luke's point, dying of fentanyl overdoses and a welfare state that is now completely blown out of the water. So, **a win for Trump is for this to stop. Whether that is going to occur in the next year or two, seems unlikely to me**.

Luke Gromen
That's a challenge, right? Because when I talked about the two trapezes, the interest doesn't sleep. Ultimately, the federal interest doesn't sleep, the corporate interest doesn't sleep. So, they are working against something that, it not just never sleeps, it's enormous as a share of the economy, as a percentage of GDP.

That's why it was so critical to devalue the debt first, because then you buy yourself time. And there's ways they could still do that in terms of revaluing gold, things like that, to buy themselves some time.

I thought it was a very under-reported story a few weeks ago: Walmart went to China. And our media in the West reported that Walmart was dressed down. But one of the fundamental underpinnings of this whole tariff/new trade war was it's going to go like it did last time. We're going to go over there and we're going to put tariffs on China. And our companies are going to go over there and they're going to demand relief so that the US corporate profit margins won't get hit or consumers won't pay more. To Louis' point, the world changed. Walmart went over there and was basically told, *bug off*.

You eat the tariff, or you pass it on to your consumers. That was not how this was supposed to go.

So, **you eat the tariff, or you pass it on to your consumers. That was not how this was supposed to go**. As we sit here today, with Trump having just raised another 50, now you're looking at a total of what, 104% tariffs starting tomorrow or in two days, as it stands.

Luke Gromen

You're in a situation like I saw this supplier on X last week saying, *The 54%, I sourced from China and I sell to big American companies; and right now my costs are going to go up 54% and my big companies aren't taking it; so I'm just going to shut down production; I can't take it*.

If I'm China, I'm not devaluing anything. I'm going to sit here and I'm going to let them swing.

So, now it's 104%, not 54%. So, either inflation's got to go up enormously at the consumer level, or you're going to have this. There is no business out there that's sourcing from China that can take a 104% hit to their margins, without massive layoffs, etc. And at a time when corporations need to refinance, to Louis' point. At a point where this is going to cut into tax receipts, which the US government can't afford. So, if I'm China... people are saying right now, *We're going to push China; they're going to devalue; we're going to force them to devalue and then they'll break*. **If I'm China, I'm not devaluing anything. I'm going to sit here and I'm going to let them swing**.

Louis Gave

You know the old story of Napoleon saying to his officers, when the enemy makes a mistake, you don't interrupt them.

You know the old story of Napoleon saying to his officers, when the enemy makes a mistake, you don't interrupt them. So, if you're China today, devaluing the renminbi would be, essentially, helping out the US that's going to be dealing with an inflationary head. I don't think the renminbi is going to devalue. They're going to see how the US wears the pain.

In the Marxist church, your catechism is that big shifts in history – revolutions, riots, etc. – occur, not because of individuals or ideas, but because of economic forces. And there is no more powerful economic force than inflation.

The reality, when you look at the Chinese leadership, they might not look and feel communist, but they were brought up in the Marxist church. **In the Marxist church, your catechism is that big shifts in history – revolutions, riots, etc. – occur, not because of individuals or ideas, but because of economic forces. And there is no more powerful economic force than inflation**. This is why the Chinese leadership are so paranoid about inflation at home. As soon as inflation steps up, they step on the brakes.

Part of the catechism of the CCP is that when you look at Tiananmen in 1989, it wasn't that the kids wanted democracy or that the kids wanted freedom. But it was that, at the time, Chinese inflation was 20%. **In the CCP framework of things, you get double-digit inflation and bad things happen and you get riots in the streets**. I'm not saying I buy into this Marxist ideology, but what I believe doesn't matter. They firmly believe it.

Going back to the point that Luke made, if you listen to Scott Bessent and Donald Trump and to JD Vance three months ago, the narrative was, *We're going to do 20% tariffs and half of that will be paid for by the rising US dollar anyway*. The US dollar is going to go up on the back of the tariffs and, so, the hit to the consumer will be very little. Meanwhile, the government will make more money. Perfect.

They're doing the tariffs and the US dollar, instead of going up, is going down. Which means that the inflationary impact of the tariffs will actually be double, because you're going to take the devaluation and you're going to take the tariffs.

Except, it's not going that way. **They're doing the tariffs and the US dollar, instead of going up, is going down. Which means that the inflationary impact of the tariffs will actually be double, because you're going to take the devaluation and you're going to take the tariffs**. That's why the bond market is not rallying even though equities are down 18-20%.

If we'd all gotten together a month ago and Ronnie, you would have told me, *Louis, I can guarantee you, hand on heart, stocks are down 20% over the next month*, I would have said, *Well, just load up on US Treasuries; you'll do great*. Nothing.

Luke Gromen

The protests, the riots are going to start in the bond market, but that's not where they're going to stop. It's just where we're seeing it first.

Nothing. To your point about where inflation drives unrest, I think that where we're seeing the unrest first in the US is in the bond market. Again, because they didn't devalue the debt first, they left broken ribs, not just exposed but basically just standing there with their hands up over their heads saying, *Hit me*. And there it is. **The protests, the riots are going to start in the bond market, but that's not where they're going to stop. It's just where we're seeing it first**.

Ronnie Stöferle

From my point of view, Trump really understands what the median voter wants, and I think inflation was a major concern. Then, obviously, also illegal immigration to the US.

What they're trying to orchestrate is pretty naïve, because they think they can fine-tune, not only the US economy but the global economy like a thermostat.

Listening to Trump sometimes reminds me of this Tolstoy quote: *Because of the self-confidence with which he had spoken, no one could tell whether what he said was very clever or very stupid*. Sometimes I'm really confused with reading this stuff that Stephen Miran wrote, which is very, very interesting. Then listening to Scott Bessent, who's obviously a markets guy. Then, also listening to JD Vance, who made some very important points, actually, and the Europeans were, I think, quite annoyed to hear those inconvenient truths. But then at some point, I also think **what they're trying to orchestrate is pretty naïve, because they think they can fine-tune, not only the US economy but the global economy like a thermostat**. It's a little bit more complex, I would say.

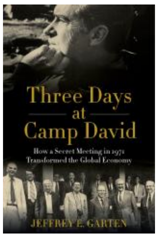
Coming back to this Mar-a-Lago Accord. We wrote about the Plaza Accord and the Louvre Accord. Obviously, the Americans wanted to get the US dollar down and then, after the Plaza Accord, it went down big-time. So, they had to come up with the Louvre Accord. Obviously, there were discussions going on, but it seemed, at least in hindsight, that it was a very diplomatic kind of conversation, where the other interests were respected.

Now, I can tell you, having the European viewpoint, I've never experienced so much hate and distrust against the United States, and I think quite a lot of this trust capital that the United States had developed over the last couple of decades seems to be eroding at the moment. So, do you think that it's really realistic to come up with this "sticks and carrots" plan and to say, *Okay, let's do a Mar-a-Lago Accord and we'll restructure the global economy based on what we, the Americans want*? To me, it sounds a little bit naive and kind of out of this world.

Luke Gromen
I don't think that's going to happen. I don't think there's going to be *the* sit-down. I would make the argument that the tariffs may have been the Mar-a-Lago Accord. Unilateral. In other words, I am increasingly coming around to the view that what happened on Wednesday was the Nixon Sunday night surprise. **We closed the gold window on Sunday, August 15th, 1971. I think we just closed the dollar window on Wednesday, April 4th.**

We closed the gold window on Sunday, August 15th, 1971. I think we just closed the dollar window on Wednesday, April 4th.

Ronnie Stöferle
Luke, may I just jump in? Did you read the book *Three Days at Camp David*? I loved it. People always think there was a big plan behind it, very structured. But actually, Nixon kind of made that up within a very short time. It basically confirms that many of the things that are happening, those things are actually not really planned.



Would you say that, with the tariff announcement, there's probably also not really a big plan behind it? They just said, *Okay, let's give it a try*.

Luke Gromen
I think there's one of two things. There is either a plan to try to sort of force people into it with tariffs – that is the preferred method. **The alternative method, which is really kind of scary is, *Worst case, if no one will play ball, then we'll just burn down the whole thing***; *we'll start with this, markets will crash, people will look for a bailout, the Europeans will want swap lines.*

The alternative method, which is really kind of scary is, Worst case, if no one will play ball, then we'll just burn down the whole thing.

If that still doesn't work to start to scare people out of American assets into gold, to start really devaluing the dollar, fine; then, maybe American banks will start to fail. And when they start to fail, no bailouts for anybody over USD 250,000 deposit insurance. *You got over 250, it's gone. If that doesn't do it, then we'll just keep doing it until the world understands that we don't want this system*. Do I think it's the right thing to do? Do I think it's likely? It's not my base case.

If that still doesn't work to start to scare people out of American assets into gold, to start really devaluing the dollar, fine; then maybe American banks will start to fail.

However, if you would have asked me three months ago, what are the odds the United States would stand aside and let the Treasury market dysfunction and maybe even up to and including a Treasury auction failure to achieve the longer-term goal of basically shifting capital out of the US to significantly weaken the dollar, to try to achieve what they see as the end state, I would say there's zero chance of that. And I think it's still a tail risk. But I don't think it's a 0% risk for these types of extreme outcomes anymore. Whether that be… we saw the Bloomberg article last week or two weeks ago that the ECB is no longer comfortable or sure that the US will supply Fed swap lines.

What would the ECB do? Are you going to starve for lack of dollars or are you more likely going to say, *We're going to bring gold collateral in; we're going to start bidding it, and we're going to reliquefy using that*. The dollar would probably fall on that, I would think, at least relative to gold, which is ultimately what we're trying to do: **Create gold as this neutral reserve asset to devalue the dollar against gold as the pivot**.

Create gold as this neutral reserve asset to devalue the dollar against gold as the pivot.

I think those are the types of things we could see as... Let me put it this way. I think it is no longer impossible that that is what is being attempted here by this administration. Because otherwise, if I don't think along that line, what they're doing makes less than zero sense to me.

Louis Gave

I was a big proponent of the Mar-a-Lago Accord. I was a big believer in it. I wrote pieces. One of the reasons I was a big believer in it was that Scott Bessent himself kept talking about it.

I'll jump in as well. I was a big proponent of the Mar-a-Lago Accord. I was a big believer in it. I wrote pieces. One of the reasons I was a big believer in it was that Scott Bessent himself kept talking about it. And I thought, here's the narrative. They're going to come in, they're going to sit down, they're going to use tariffs as a tool to threaten China, Japan, Korea, etc. And they're going to sit down and they're going to say, *All you guys have way undervalued currencies* [which they do]; *you need to revalue currency; you need to buy a bunch of US Treasuries and help us get the bond yield down, and you need to build more factories in the US so that I can come in, and with a big pair of scissors cut the ribbon and it looks like I'm dealing with the problem*. This is how it's going to go.

I was a firm believer that we were heading this way and, deep down, I still think that was their goal. That's where they wanted to end up. Again, having China buy more Treasuries, having BYD open factories in the US, having a higher renminbi. That was the goal. And I think that the process has now thrown them way off course. Because of the whole *Let's blanket tariffs on everybody and their penguin, let's rub Xi Jinping's nose in it*. Then, you leave him no options. I think that was the goal, but the process of how it was managed means that now it's not going to happen.

Having said that, the US can still bully Japan and Korea to do whatever they want. That's the whole privilege when you have troops in another guy's country. At the end of the day, the guy's got to do what he's told. So, I still think you will see the higher Japanese yen. I still think that Japan will be buying more Treasuries. Same with Korea.

If it's the US that ends up being isolated, then I think the Treasury market melts down. If it's China that ends up being isolated, obviously it's terrible news for Chinese equities, but they're cheap anyway.

But I think with China now, it's gone. China now, after today, I think it's too far gone. For me, the big question out of this, is it the US that ends up being isolated or is it China that ends up being isolated? That's the big question mark. **If it's the US that ends up being isolated, then I think the Treasury market melts down. If it's China that ends up being isolated, obviously it's terrible news for Chinese equities, but they're cheap anyway**. And I think the government will probably intervene at some point to just buy the market and crank it back up, because it's cheap enough and they can do it.

This is now the question mark. And Europe, big emerging markets will have to decide, *You know what, I'm siding with China on this one, because the US is really pushing the envelope* – or, *Even if the US is pushing the envelope, China remains a totalitarian country, so I can't side with them, I still have to side with the US, even if I have to hold my nose in doing it.*

Bessent goes out and says the US dollar is going to stay as the reserve currency of the world and we're going to use stablecoins to do it.

Niko Jilch
One very important thing that I want both of your opinions on, please, is the question of whether the Treasury market melts down. Luke talked about the ECB. We both love the ECB. The ECB is scared of stablecoins. They talk about the digital euro every day. **Bessent goes out and says the US dollar is going to stay the reserve currency of the world and we're going to use stablecoins to do it**. Are they really going to do that? Are we going to go "free banking" on crypto and anybody who wants can print some dollars and buy some Treasuries? And that's the way forward? Or is that just some other side show that gets blown out of proportion?

Luke Gromen
You know, this is another one where in November, even in the third quarter of last year, into November, it seemed to be really, sort of, a credible way to find balance sheet capacity to manage the Treasury market through stablecoins. If we grow the size of crypto, we grow the size of the stablecoin market and we grow this as a Bitcoin, really. Bitcoin goes up, stablecoin market goes up. Stablecoins: We regulate to buy in T-bills. This is a way where we can find, depending how much Bitcoin goes up and how much we regulate in terms of reserves, that these stablecoins have to own in T-bills, hundreds of billions, if not a trillion dollars, in balance sheet capacity at the front end of the curve, at a time when the United States desperately needs balance sheet capacity.

Initially, all this made a lot of sense to me, and since then it's kind of devolving a bit, because you've got Bessent saying, We're going to keep the dollar reserve currency through this, and the world is going to move into dollar-based stablecoins.

So, **initially, all this made a lot of sense to me, and since then it's kind of devolving a bit, because you've got Bessent saying, *We're going to keep the dollar reserve currency through this*, *and the world is going to move into dollar-based stablecoins***. But the only way that's going to happen is if the US keeps running deficits to get dollars elsewhere, I would think. So, that doesn't make sense to me in terms of there being a real growth in stablecoins, dollar stablecoins, with which to flow back into Treasuries.

In addition, when you look at the legislation, it all still has to abide by KYC and AML and all this, through the US banking system. What to me started to look like a credible way to find a lot of balance sheet, in relatively short order, to deal with the worsening US fiscal problem that was good for Bitcoin, is starting to look like a money grab by the big US banks, who are starting to sort of crap their pants that stablecoins are eating their lunch.

They're looking at Tether going, *This guy's got 200bn or, whatever it is, 120bn sitting in T-bills making 4.5% with no cost. He's literally making nearly as much money as all of JP Morgan with, like, 30 people sitting in Switzerland. As this happens on smartphones around the world, they're going to eat our lunch*. So, they want to Americanize and get control of this under the American financial system. But then again, these are contradictory goals like so much else of what this administration is trying to do.

To me, it just feels a little bit like a word salad of trying to sort of cover everything, while not achieving anything.

Do you want to internationalize the dollar? How are you going to do that if you're not running the deficits, which the other side of your policy is doing. And if you want it to expand a lot, then you're going to have to figure out how to make it work with a lot of AML kind of stuff, which is likely to be time consuming and difficult relative to their goals for rolling it out, as well as relative to the pace of development in that sector. **To me, it just feels a little bit like a word salad of trying to sort of cover everything, while not achieving anything**.

Ronnie Stöferle

Kierkegaard said that *Life can only be understood backwards, but it has to be lived forwards*. So let's say we've got Marty McFly. We've got this DeLorean in *Back to the Future*. Let's say it's now April 7th, 2030, and we're basically peering back in time through our DeLorean windshield. With the knowledge from the future, what would you have bought on April 7th, 2025, and why? I think I know Louis's answer already. Would it be emerging market-related? Would it be commodity-related? What kind of currency? And then would you say, in hindsight, that this Liberation Day was actually just a short-term blip, or was it really something that will go down in history books?

Louis Gave

I think a lot of what the Trump administration has done in the past three months since coming in has been a game changer. Trump is signaling that the age of US empire is over.

I think it's a game changer, actually. But, **I think a lot of what the Trump administration has done in the past three months since coming in have been a game changer. Trump is signaling that the age of US empire is over**. He's saying, *We're moving back into our own borders; we're going to build Fortress America*. [Maybe you can call it Fort Monroe.] *Greenland, Canada, come inside. We'll get the Panama Canal back. But essentially, these are now our borders. It's the Western Hemisphere. And Europe, you can do your own thing. Asia, you can do your own thing. But we're essentially folding back.*

Essentially, Erik Prince's message in that speech is: The primacy of US weapons is over.

I think they're doing this for a number of reasons. One of them, actually, I want to give Luke credit for. He highlighted to me Erik Prince's speech at Hillsdale College, which for me is – I reread it three times – earth shattering. **Essentially, Erik Prince's message in that speech is: The primacy of US weapons is over**. That we put all our best weapons in Ukraine; and Russia, basically, figured out how to counter them. That may or not be true. Maybe we believe Erik Prince, maybe we don't. It doesn't really matter whether any of us think this is true. What matters is that Erik Prince is very close to President Trump. So, he's passing on that message to President Trump, saying, *US weapons – you used to think we were three generations ahead; we're not; the other team has hypersonic missiles; it's got drones that can swarm us; its warfare has changed and we're no longer sure to win*.

So, if you're given that message, if you're President Trump and you receive that message, you can choose to discard it; but if you think, *I respect this guy; he's the best warrior of his generation; he's a former Navy SEAL; he's created Blackwater; he knows what he's talking about and, unlike all the US generals, he's not going to BS me*. If that's the case, then it's *Yes, I'm going to go back to being defended by my two beautiful oceans*, and essentially fold back into the United States; and that's exactly what they're doing.

JD Vance's speech in Munich was exactly that. It was telling Europe, we're folding back.

JD Vance's speech in Munich was exactly that. It was telling Europe, *We're folding back*. He should have said, *It's not you, it's us*. But he essentially said, *I'm breaking up with you, and it's you, it's not me; you're a terrible person*. That was JD Vance's breakup speech in Munich, which was a little... you know being broken up with is hard, but usually the other guy has the decency to say, *It's not you, it's me*. But JD Vance didn't even have that decency. He just said, *It's not me; I'm great, you suck; that's why I'm breaking up with you*.

If you're Thailand today, if you're Malaysia, if you're Indonesia; even, frankly, if you're Japan or Korea and you see this US folding back, you're like, Maybe I don't want to piss off China.

Anyway, they folded back. The US is folding back into its own borders, which is why, I think, in this whole question we're having, is it going to be China that's isolated or the US that's going to be isolated? **If you're Thailand today, if you're Malaysia, if you're Indonesia; even, frankly, if you're Japan or Korea and you see this US folding back, you're like, *Maybe I don't want to piss off China***. *As the US falls back, I may want to be close to China*.

Bottom line for me is when I look at this, the more obvious trend for the coming years is a weaker US dollar. And then from there, what do you buy when the US dollar goes down? My own bias, when the US dollar goes down is I buy emerging markets. I buy especially emerging markets financials, because when the US dollar goes down, EM central banks can let loose. They have no more constraints; they'll tend to have pretty loose monetary policy, loose lending criteria. So, EM banks tend to thrive when the US dollar is down. I think today you buy the EMs, you buy EM banks, you buy commodities, you buy all the things that, historically, do well when the US dollar goes down. You can build a diversified portfolio between a lot of these asset classes.

Ronnie Stöferle
Luke, we're in 2030 and you're going back five years. What would you have bought?

Luke Gromen
I would obviously add gold and Bitcoin to those things. And then, something I've been harping on, US electrical infrastructure and things that touch it. We are so behind; there is so much investment to be done. I keep hearing from a private company I'm involved with, one of the execs told me a few months ago, *Our big suppliers, sort of the Japanese multinationals of the world, are telling us, in the next three years, we think business is going to at least double in the US, but we're not telling anyone anything near that because what's our upside in doing so?*

This was before Trump's election, and if anything, that timeline has probably only gotten more aggressive, faster. So, I think the US domestic electrical infrastructure industry; and I'd be looking at different, sort of, higher-end US agricultural properties, at some point. Those are some of the things I would be most interested in.

Ronnie Stöferle
Thank you very much. Niko, for you it's probably Bitcoin.

I can buy one millionth of a Bitcoin; I cannot buy one millionth of a farm in Argentina.

Niko Jilch
I said it's either going to be Bitcoin, or if I could afford it, a farm in Argentina. But **I can buy one millionth of a Bitcoin; I cannot buy one millionth of a farm in Argentina**. So, I'm going to go with Bitcoin.

Ronnie Stöferle
Gentlemen, this has been great. Thank you very much for your time. We will feature this in the *In Gold We Trust* report. As I've said, we're subscribers to your research services. So, there's now plenty of time for shameless advertising. Where can we find you? Where can we learn more about your companies, your services? Let us know.

Luke Gromen
For me, https://fftt-llc.com/ for more information about mass market or institutional research offerings.

Louis Gave
Thanks, for me, the best place is www.gavekal.com. Our website has all our various offerings for different types of clients.

Ronnie Stöferle
You're both also on Twitter, on X. Also great, great follow. Gentlemen, thank you very, very much for taking the time. It's been a true pleasure. This will be one of the highlights of this year's *In Gold We Trust* report. Thank you. Be good, be safe.

The video of this debate can be viewed here and the *In Gold We Trust* report 2025 "The Big Long" is available for download here.