

The Fourth Turning: Generational Theory and the Future of Global Money | Raoul Pal

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The probability that we are going to go into recession or that we are already in recession is very high. — Raoul Pal

INTRODUCTION

Raoul Pal is a former hedge fund manager who retired at 36, Raoul Pal is a co-founder of Real Vision, a financial media company offering in-depth video interviews and research publications from the world's best investors. He has run a successful global macro hedge fund, co-managed Goldman Sachs' hedge fund sales business in Equities and Equity Derivatives in Europe, and helped design the BBC TV program Million Dollar Traders, training participants in investment and risk management strategy. Raoul retired from managing client money and now lives in the Cayman Islands, from where he manages Real Vision and writes for The Global Macro Investor, a highly regarded original research service for hedge funds, family offices, sovereign wealth funds, and other elite investors.

DISSECTING THE 'DOOM LOOP'

“There are truths and there are false narratives. And the false narrative is that of hope – that you will make enough money to retire on. Just give it to the guys on Wall Street. They'll invest it and they'll make sure that your savings grow enough. But the reality is that the average guy is earning less money so they can't even save enough to retire so the truthful reality is it's not there and most of that has to do with the debt build-up and demographics.” — Raoul Pal



SURVIVING PROGRESS

Financing an Unlivable World — **Q:** Are we financing a world that we can't afford to live in? **Q:** Isn't the flip side of all this financing that we are making promises to people about how rich they can afford to be, since their wealth increasingly derives from the liabilities of people and companies that cannot deliver the future cashflow necessary to maintain current valuations in real terms?

Successful Compromise — **Q:** Have those of us who have done well – even if we have worked very hard and sacrificed for the wealth we have created – need to just accept that we have to give some of it back in order to make all of this work?

Hide and Seek — **Q:** Are people like you and me just looking for a place to hide out the inevitable property grab that will come once governments begin to run out of money?

Growth at all Costs — I think you and I agree about the dangerous obsession with growth and how it is putting our entire global economy and ecology at risk. **Q:** What accounts for this obsession and why has it been so difficult for us to move away from this target? ***e.g. Climate Change Policy

Gold Bug'n Out — **Q:** What is the role for gold? **Q:** What role does it play in your personal portfolio? **Q:** How do people decide how much to allocate?

FROM BEGGAR THY NEIGHBOR TO JUST PLAIN BEGG'N

From Cash to Trash — The interwar years saw countries trashing their currencies in order to gain competitive advantage on exports. **Q:** Are we increasingly going to see countries begin to trash their currencies during the 2020's in order to pay back their loans? (i.e. German reparations)

EURO PRISON

Future of the Euro — **Q:** Is the Euro project going to survive? **Q:** What do you think is driving the polarization of political parties in Europe and the emergence of nationalist movements?

ECB — **Q:** What does the appointment of Christine Lagarde mean for ECB policy? **Q:** Are we going to see a shift towards more accommodative monetary policy? You have talked about "negotiation." What do you mean?

European Banks — **Q:** How are the Europeans going to manage the state of their banks? **Q:** How does the appointment of Lagarde relate to the state of Europe's banking system? **Q:** Where's the sovereign debt going to come from in order to bail them out? **Q:** Doesn't this require further union?

European Economies — **Q:** What's up with some of Europe's largest economies (e.g. Germany)?

KING DOLLAR

Dollar Play — I've heard you say that "the only asset class that matters right now is the dollar and it is range bound." **Q:** What do you mean by this? **Q:** Is the dollar the currency you want to own most at the present time?

Dollar Carry-Trade — **Q:** What knock-on effects does a higher dollar start to have? **Q:** Is there a carry trade reversal opportunity in the event of a corporate credit squeeze? How long would something like this last for given the new preponderance of central banks?

Bond Play — **Q:** What type of opportunity do you see in bonds? **Q:** How much lower can yields go?

Are we Going Into a Recession? — **Q:** Is the world going to go into recession and is the US going to go into recession?



INTEREST RATES AND THE FED

Fight or Don't Fight the Fed? — The Fed looks like it is going to start to ease. I've heard you say that "the only call that matters is how far are they going to go and are we going to go into recession?" **Q:** Has the Fed overtightened and when did that start to happen? (Tightening in August, September, October period with higher treasury issuance)

Rate-of-Change — **Q:** I've seen you talk about the importance of the "rate-of-change" for interest rates as being "what counts." Can you elaborate on this?

Yield Curve Inversion — Where are we now? What is the yield curve telling us?



Source: Thomson Reuters, Credit Suisse

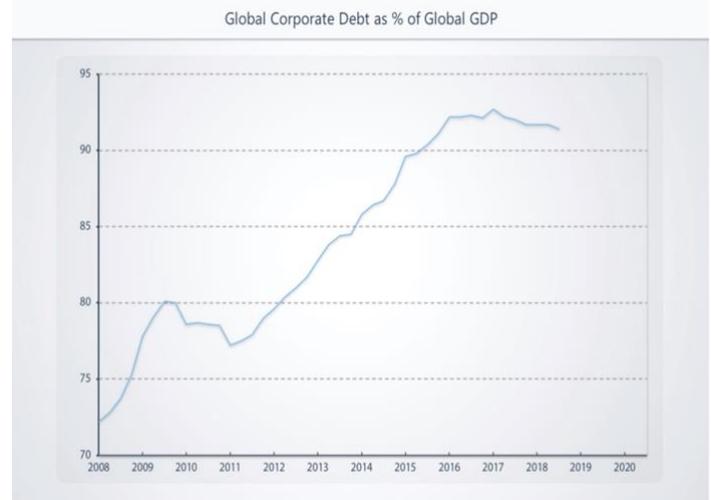
WHERE'S THE BUBBLE?

Venture Fund Bonanza — What is the story of Soft Bank?

Corporate Debt Crisis — **Q:** Is the corporate debt sector the poster child of the coming recession? **Q:** How much of equity buying during the second half of this bull run has come from corporate buybacks? **Q:** This time vs. last time? *** As debt issuance as a percentage of GDP has risen, the quality of that debt has fallen.

Demographic Crisis — **Q:** What role are changing demographics going to play in the equity market, economic growth rates, and debt servicing capacity?

MMT — **Q:** What is the future of MMT? **Q:** Is its adoption by the democratic left overhyped?



TRADE WAR, SUPPLY CHAINS, AND INDUSTRIAL PRODUCTION

Extraneous Event — **Q:** Is the Trade War the extraneous event that we were all worried about in 2017? **Q:** What is happening to trade volumes? **Q:** How big is this “rerouting of global supply chains” story, how can we measure it, and has it started to generate its own momentum at this point?

Industrial Growth — **Q:** What’s happening to industrial manufacturing numbers around the world?

Switch from ISM to ECRI — Why did you shift from using the ISM to using the ECRI for measuring the business cycle? How useful are these tools?

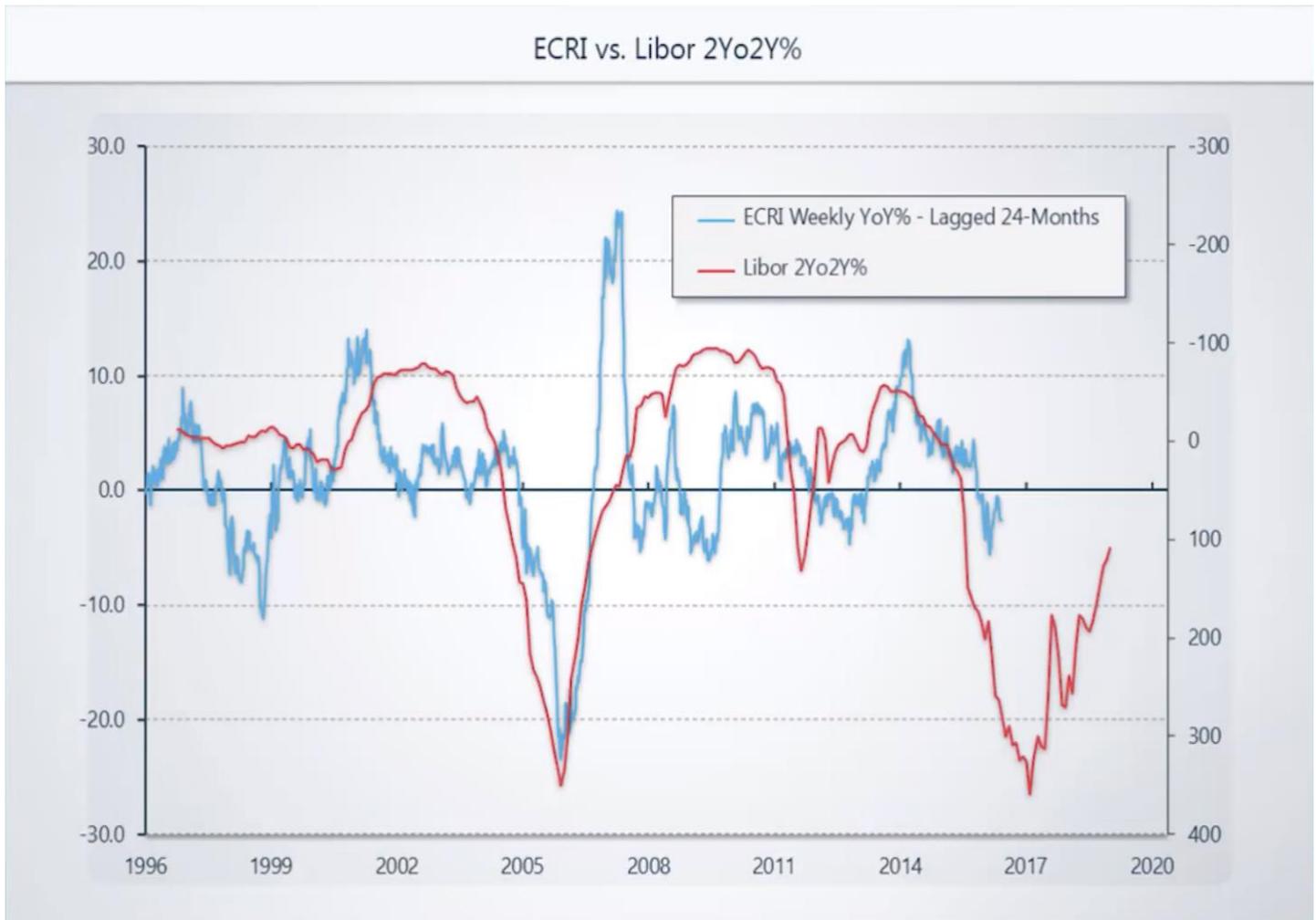
Focusing on Cycles — **Q:** What economic cycles are you looking at? (e.g. Real Estate, Industrial, Shipping, Commodities, etc.)

Revolution in Data & Econometrics — I’ve heard you comment before on what you think is an oncoming revolution in our ability to extract meaningful insights from financial and behavioral data that can help us make better investment decisions. **Q:** Can you elaborate on this?

BITCOIN, CRYPTO, & DLT

Millennial Profile — I’ve heard you describe millennials. I’d love to see where we come down on this profile, because I discussed it with Ben Hunt as well. **Q:** How do millennials, in your view differ from their parents and grandparents? **Q:** How does their investing behavior differ?

Hyperbitcoinization — **Q:** Are you familiar with the arguments for Hyperbitcoinization? **Q:** What do you think?



Bitcoin — I'm really interested to speak with you about Bitcoin. I have surmised from your public statements that you have begun to take some kind of position in bitcoin. **Q:** My first question is (1) How large is your position in relative terms, (2) are you looking to add to it, (3) and how are you doing that? **Q:** What do you compare bitcoin to and what type of asset class do you consider it to be?

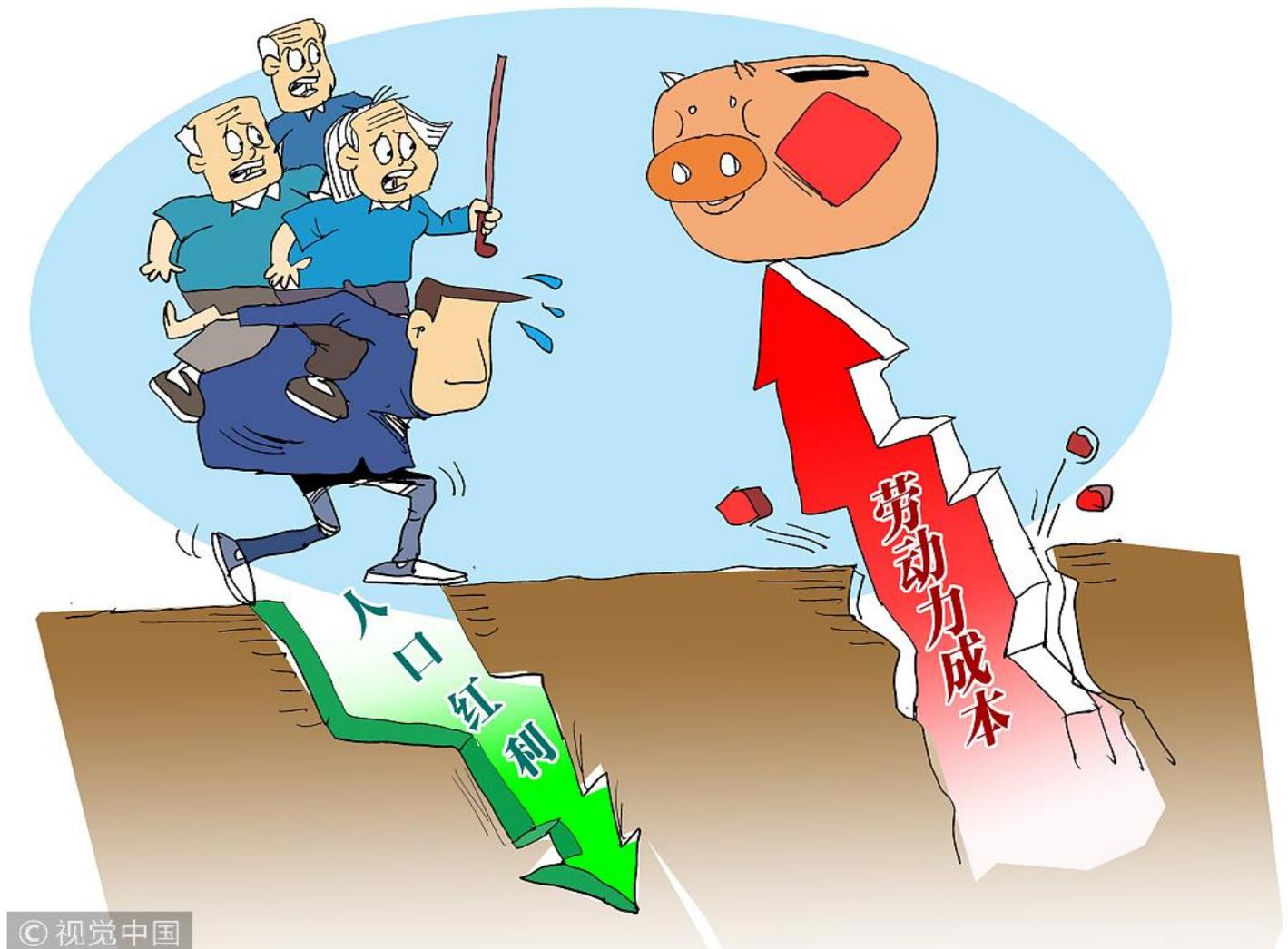
Bitcoin Correlated or Anticorrelated? — I used to see bitcoin as an anticorrelated asset that could serve as a hedge against systemic risk. I suppose it can still offer that function, but in the last downturn, what we saw was that it actually correlated with the broader market decline towards the end of 2018. **Q:** How do you expect bitcoin to perform when if and when we get another major leg down and can that provide a buying opportunity similar to what we saw with gold in the Fall of 2008 when it fell about 20% from September to November or early December? That turned out to be the best buying opportunity in what turned out to be a 4 year runup in prices.

Utility vs. Store-of-Value — I have heard you express an even greater interest in applications related to utility for DLT than I have for store-of-value. I'd love to explore your thinking here. **Q:** Where do you think the biggest opportunities in crypto lie?

JAPAN & CHINA

Japan — **Q:** Is Japan leading the way for the rest of the industrialized world? **Q:** Can the rest of us learn from what is happening in that country and make adjustments accordingly?

China — **Q:** What about China? USD - RMB?



THE DOOM LOOP

PHASE 1

**Business Cycle Weakens
Credit Spread Widen
Corporate Cash Flows Slip
Equities Fall
Volatility Increases**

PHASE 2

**Business Cycle Weakens Further
Credit Widens More
Cash Flow and Profits Decline
Tax Receipts Fall
Pensions Stop Buying Debt
BBB-Rated Stocks Fall
Equities Fall Hard**

PHASE 3

**Baby Boomers Sell Stocks
BBB Debt Downgraded to Junk
ECB Saves European Banks
Spreads Explode and Credit Seizes Up
Equities Collapse
Pension Funds Default**