

THE GRANT WILLIAMS PODCAST

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The Super Terrific Happy Hour: Episode 8
Peter Atwater, Financial Insights

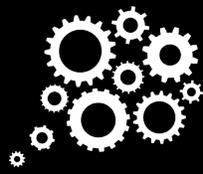
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The Grant Williams Podcast, including *The End Game*, *The Super Terrific Happy Hour* and *The Narrative Game* represents the Copper Tier of grant-williams.com and serves as a prelude to *Things That Make You Go Hmmm...*, Grant's monthly newsletter which, over the past decade has become one of the most widely-read financial publications in the world.

Blending history, humour and keen financial insight, Grant dissects the financial landscape with thought-provoking commentary—taking readers in unexpected directions and opening up investment avenues away from the beaten path which stimulate the kind of original thinking so lacking in today's financial media.

Drawing on Grant's extraordinary network of experts around the world, *Things That Make You Go Hmmm...* weaves together a tapestry of insight and information, folding in a series of under-the-radar stories and perspectives, to give subscribers an important edge in a fast-changing world.

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Stephanie and Grant welcome Peter Atwater, the brains behind Financial Insights to the Super Terrific Happy Hour for a discussion about mood and markets.

The three discuss how the stock market's blistering rise has been fueled by sentiment, the places Peter sees potential trouble brewing and the dangers of complacency amidst today's euphoria.

In addition Stephanie takes a look at everybody's favourite subject – the dollar – and ponders what the strange action of the world's reserve currency in recent months may portend...

Grant Williams:

Before we get going, here's the bit where I remind you that nothing we discuss during The Super Terrific Happy Hour should be considered as investment advice. This conversation is for informational and, hopefully, entertainment purposes only, so while we hope you find it both informative and entertaining, to say nothing of super and terrific of course, please do your own research or speak to a financial advisor before putting a dime of your money into these crazy markets. Now, on with the show.

Jerry Seinfeld:

People always tell me, "You should have your money working for you... Because you send your money out there working for you, a lot of times it gets fired." You go back there, "What happened? I had my money, it was here. It was working for me." "Yeah, I remember your money. We had to let him go."

Grant Williams:

Welcome, everybody, to another Super Terrific Happy Hour. Joining me is the reason for all three of those adjectives, the one and only Stephanie Pomboy.

Stephanie Pomboy:

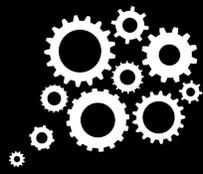
I have to come up with a good retort for that because generally I'm assumed to be the most gloomy person on the planet.

Grant Williams:

Well, you see, that's precisely why you want to do this thing with me because then you're pretty much safe.

Stephanie Pomboy:

Oh, please. No, you are always smiling and happy. Always. So anyway, pleasure to see, or hear, you.



Grant Williams:

Likewise, likewise. Now, we have a guest joining us today, a mutual friend of ours who you actually introduced me to a few years ago, and he's always so much fun to talk to, and that is Peter Atwater. But before we get Peter Atwater to join us to talk about the world, I wanted to talk to you about the piece you put out this week called Buckling, which is all about the dollar. I read it yesterday, or when is it... Yesterday I read it.

Stephanie Pomboy:

Seems like a year ago already.

Grant Williams:

No, but it is just so brilliantly put, Steph, honestly. I mean, the dollar is something that everyone's got an opinion on, I guess, necessarily in most cases, and everyone's been looking at. Half of the people have been right and half of the people have been wrong. If you go back six months, each was in the other's campaign. Everyone gets stressed out about it. But the piece you wrote, I thought just laid out so many of these pieces so beautifully, so I just wanted to walk through it with you if you can, get you to lay out what you're talking about, and I'll pipe in with a dumb question every now and again.

Stephanie Pomboy:

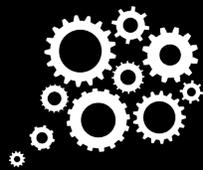
Well, I wrote it honestly because I was trying to understand what was going on with the dollar myself. Because as I look at my Bloomberg screen and where the stock market is and what's happening in credit and what's happening with commodity prices and gold, the dollar just didn't fit into any narrative that I could construct. So it was puzzling as to what can I be getting wrong? So basically I wrote the piece as an exercise in trying to cross out the possible explanations for what's going on there. I guess I don't really take as gospel what the going narrative was, and the going narrative was just this is risk on.

Stephanie Pomboy:

So you can toss out all the safe havens like the dollar and treasuries and that's why it's been going down in pretty significant fashion in the face of what seemed to me, to be fundamental data that would suggest it should be going the other way. If we have a vaccine and the economy's going to recover and we're closer to getting the stimulus bill that the market keeps going ping ponging back and forth on, that should be good for growth, which should, you would think, be good for the dollar, particularly since, as I scanned the global equity markets, it looked like the U.S., relative to all the developed economies, was a strong outperformer.

Stephanie Pomboy:

It wasn't as though people were saying, "Well, the U.S. is going to do great with the vaccine, but Europe and the U.K. are going to do so much better." Because when you look at the performance of the S&P, it's bested all of those markets pretty handily. The one area where the U.S. and developed economies have been put sidelined is versus the emerging markets where people have said, "Well, if it's good for the developed economies, then they're warrants on global growth, so they'll do even better." Then, of course, Biden, with the shift in the U.S. stance toward China, would help boost Chinese economy and all of the emerging economies around that as well, so you layer that on top of it. The problem is that we're all looking at the DXY Dollar Index and it's going down, and none of those emerging market currencies are represented in that Dollar Index, so that's not the answer.



Stephanie Pomboy:

So I kept puzzling around as to, all right, if it's not that everyone is fleeing the U.S. in favor of better investment alternatives, what is going on with the dollar here? Again, I was puzzling because you have this concomitant backup in Treasury yields, which, again, fits with the idea of a stronger economy, but the only explanation I could come up with for why the dollar would be weaker and Treasury yields would be rising is that foreigners are selling treasuries. So I went and looked at the Fed's custody account because it's the most timely window we have into what's happening with foreign purchases of treasuries, and it turns out that not only aren't they selling, they have been buying in possibly the most aggressive fashion we have seen since the global financial crisis, which is amazing. It's kind of silent in the background. Only nerds like me sit there and look at the Fed's custody account.

Stephanie Pomboy:

But since the election, the Fed's foreign treasury holdings at the fed are up almost 70 billion. That's in five months time. You annualized that, you're talking about-

Grant Williams:

Five weeks. That's five weeks.

Stephanie Pomboy:

Sorry, five, yes.

Grant Williams:

Yeah, yeah.

Stephanie Pomboy:

Thank you. Annualized that, you're talking about almost 700 billion a year in central bank purchases of treasuries. I mean, no one would rightly assume that you're going to sustain that pace, but it puts into context the magnitude of the purchases. When I saw that and I saw it was happening in terms of specs, which was the last possible explanation, maybe hot money speculators are wagering heavily on a dollar decline, so I looked at the CFTC positions there and found that yes, they've been overwhelmingly short, the dollar versus the euro, the yen, et cetera. They had actually been reducing those positions in the last several weeks over the period that the dollar declined.

Stephanie Pomboy:

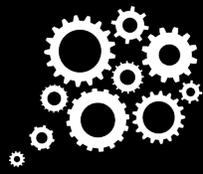
So when I stepped back, I was even more confused. I'm thinking, "Okay, if all these forces are supporting the dollar and it's going down, that's a terrifying statement about what the underlying fundamentals behind the dollar are right now and how much weaker the dollar would be were it not for the 700 billion annual pace of foreign central bank purchases-"

Grant Williams:

Central banks, yeah.

Stephanie Pomboy:

"... and speculators covering some of their short exposure, et cetera." So I don't know if and when that reality will be revealed. I suspect it will just because my thesis is, you and I have talked about over and over



again, is that once we get the vaccine distributed, this idea that the economy just takes off like a rocket is going to prove, let's say, a tad overly optimistic. At that point, maybe the dollar's true underlying weakness will become apparent.

Grant Williams:

I mean, look, when you got to the end, because I'm reading it and every page, I'm turning. It's like a thriller. It's like the most nerdy thriller of all time. Really, you go, "So what the hell is it then?"

Stephanie Pomboy:

Oh, my God.

Grant Williams:

But when you had that chart of the bond deals in the U.S., the U.K., and the EU, that was a real... Just when you think, "Okay, it all makes sense," you throw that chart in there. Just talk about that because when I saw that chart, I was like, "Wow, that really makes no sense."

Stephanie Pomboy:

Well, exactly. I mean, actually, I was just looking at this Bloomberg, God bless him, they have a table which they must update every day of the current level of global bond yields. The U.S. at 0.95 is head and shoulders above pretty much every market out there. The only economy in the industrial world that actually has higher yields and marginally so is Australia at, I think, 1.03% or something like that. But everywhere else, Germany, Denmark, Japan, U.K., substantially lower. So you would think that money would be flying into U.S. fixed income to capture that yield, which just, again, adds to the mystery of why the dollar is so weak and why flows aren't rushing in. Or maybe it's not a mystery, maybe it's a statement about the difference between Main Street's perception of where the U.S. economy is headed, i.e. U.S. companies that are transacting in global currencies and need to hedge potential declines in the dollar versus Wall Street's perception of how we're just going to take off and it's going to be phenomenal.

Grant Williams:

Just for good measure, you threw in that consumer credit report. It looked to me like that came in after you'd finished writing. You kind of... It's this beautifully rounded piece, but then you see those consumer credit numbers, which were like a 50% below-

Stephanie Pomboy:

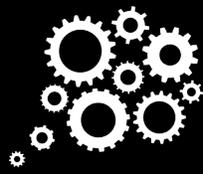
Expectations, yes.

Grant Williams:

... forecast, right? For October.

Stephanie Pomboy:

Yep, and another reduction in credit card balances. The consumer continues to pay down debt. I actually tweeted out, today there was another one of these delightful headlines on Bloomberg talking about the massive amount of cash on the sidelines. They were pointing to the household saving rate saying, well, all this money is going to come into the stock market because there's no way people are going to sit on all this savings. Well, if they were paying any attention to the consumer credit report, I guess maybe they wouldn't



be quite so confident that people are going to rush out to spend that saving. I mean, there's clearly a-

Grant Williams:

Well, that involves interpreting two charts, not one.

Stephanie Pomboy:

Right.

Grant Williams:

Which that's double the work. I mean-

Stephanie Pomboy:

Besides, it's so much more fun to talk about how much money is going to flow into the stock market. That money mountain, that cash on the sidelines thesis. I mean, I don't know how many years that's been around, but I remember that from the days when I was at ISI and that's 18 years ago. I guess if you repeat the lie often enough, maybe-

Grant Williams:

Yeah, right? Well, and it's a fantastic report. I'm going to put you on the spot here, which I'll do, but if you fail miserably, we'll just edit it out so no one will ever know I put you on the spot. But if people wanted to read this report, would you share it with them? Because I just think it's such a timely piece-

Stephanie Pomboy:

I would, yes. You're putting me on the spot with ample notice ahead of time that you were going to do that, so I begrudgingly say yes, I would.

Grant Williams:

See? Look, and just like that, the magic of podcasting evaporates.

Stephanie Pomboy:

No, it's the magic of Grant Williams.

Grant Williams:

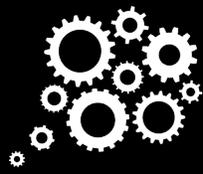
Evaporates. The magic evaporates. Well, just how can people request a copy of it? Because it's short, it's great read, and I think it's important.

Stephanie Pomboy:

I think if they go to macromavens.com and go to the more information section, they can request that and we'll just reply to them and send them a copy of that report.

Grant Williams:

How about that? You're such a star. I mean, anyone with an interest in the dollar, trust me, you are going to want to read this report. I promise you that.



Stephanie Pomboy:

You are a very low paid marketing department for me.

Grant Williams:

Well, listen, it may be low, but I'm paid exactly what I'm worth.

Stephanie Pomboy:

That's so not true. Oh, my God.

Grant Williams:

So everyone's getting something out of this, so [crosstalk 00:12:55]-

Stephanie Pomboy:

Yeah, I couldn't afford to pay you what you're worth.

Grant Williams:

Well, listen, let's change the subject and talk about our guest that's joining us because... In fact, why don't you introduce him because you knew him before I did, which grates with me, but I'm going to let it slide.

Stephanie Pomboy:

Well, actually, I was trying to figure out how I met Peter. I think I met him way back in the days of Minionville, which is a long time ago. But when I met Peter, he was actually seguing, I won't use the word transitioning for fear of creating the wrong impression-

Grant Williams:

Yes, we don't want to hashtag in front of this podcast, thank you very much.

Stephanie Pomboy:

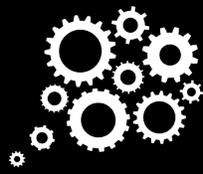
... from having spent many years in the financial sector, in banking finance, not just investment. So actually, I want to quiz him, although we'll talk to him about his mood and the markets and all the work he's doing there. I do want to quiz him on what he thinks about what's on the cards for the financial sector as well. So I got to know Peter over that time. Actually, I came to meet him right when the whole housing bubble was starting to deflate and a lot of us were lining up the dominoes to what it would mean for the financial sector. That's how Peter and I met, so it was a very exciting time obviously as we sat there trying to quantify what the potential hit to all these banks would be from the subprime bust while the consensus was that the stocks were impenetrable and were going to continue to move higher.

Grant Williams:

Yeah, contained. Bear Stearns was fine. We all remember that just now. Everything was okay.

Stephanie Pomboy:

Right, everything. Nonetheless then, Ben Bernanke offering those assurances. But since then, as you know, and I know you've talked to Peter, he has made a segue into really talking more about the mood and the popular mood and how it's reflected in... It's really fascinating to read his reports-



Grant Williams:

It is. Yeah, it absolutely is.

Stephanie Pomboy:

... of how he encapsulates the entire mood of the country and ways that it expresses itself. Even in financial headlines, the people might not understand the degree to which there's a story behind that that really relates to what's happening in popular mood. It's going to be very interesting and timely to talk to him now given the year we've been through and this apparent turning point that we're at in terms of having the vaccine and this euphoric market response.

Grant Williams:

Absolutely right. I mean, I would say with all this vaccine news, there's, in my mind, no better time to invite Peter to come and talk to us. So with all that being said, why don't we introduce him? Peter Atwater, come on in.

Peter Atwater:

Thanks so much, Grant.

Grant Williams:

It's great that we get to see each other, even though the people listening to this don't get to see us.

Stephanie Pomboy:

Right, they're missing out.

Grant Williams:

These Zoom things, it is nice to see people's faces. Not so much some of the backgrounds that you get distracted by when people have these God awful bookshelves with all these books that you wonder if they've read or not, but it's nice to see you've got a bit of space behind you.

Peter Atwater:

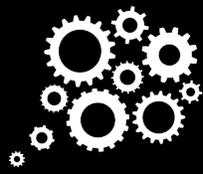
We're in the garage today.

Grant Williams:

We're in the garage. So Steph and I were just talking about what a perfect time it is to talk to you given the upsurge in euphoria around the vaccine and stuff. So before we get to what you're seeing with that and some of the signals that it's throwing off for you, just if you wouldn't mind, in your own words, just tell people what it is you focus on and how you interpret those signals and what you're looking to achieve with that.

Peter Atwater:

So I look for behavior, specifically group behavior and what do people think, what are the stories they're telling themselves, how do the stories mirror what they're doing. I work in both directions. I look at what are the actions and what is sentiment. We act as we feel and remarkably, we learn nothing, and so we do the same stupid things over and over.



Stephanie Pomboy:

It is so true, right?

Grant Williams:

So before we got to today, let's backtrack because this pandemic, I think for everybody, has been such an emotional rollercoaster, to use that trite old phrase. So, I mean, what do you see? Because your sentiment metrics and gauges must have been pinging you all over the place these last eight months. Talk a little bit about what kind of a ride it's been and if it's been impossible to find the signal in the noise.

Peter Atwater:

So start of the year, there was euphoria. Investor euphoria. But as important to me, political euphoria. Back in early February, you had a president who had been acquitted from an impeachment perspective and there was a sense of invincibility that existed widespread from the White House across the Republican party. I think that's a really important setup for what we've seen since then because you had both political and economic sentiment all in the same space. Then both collapsed into March and this sense in the middle of March of absolutely hopelessness. Things were going to get worse with the pandemic, things were going to get worse with the economy. You had all of the classic signals of panic. People were googling the word unprecedented like never before. Right?

Peter Atwater:

So that, to me, marked a major low. What's so wild about what's happened since then is there have clearly been multiple paths. I talk about the K-shaped recovery, but those at the top, this has been an inconvenience. They've migrated to working at home. The Fed had their back, fiscal policy... It's like watching... The term I'm using more and more is this is Downton Abbey where during smallpox, those on the estates were able to navigate it in isolation. Meanwhile, everybody else is suffering.

Stephanie Pomboy:

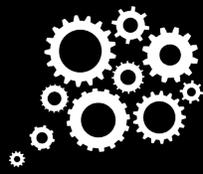
I heard some politician, I'm not going to remember who it was, interviewed the other day and they were defending the lockdowns. This woman said, "Being told that you have to stay home is a privilege. It's comfortable." She went on to describe in lofty tones how comfortable and easy it is to be at home. Well, obviously she lives in a place that affords her a lot of comfort, that I would guess that the big swath of the population you're referring to has no sense of whatsoever.

Peter Atwater:

No, and remarkably, and what's so tragic to me, is the vast majority of America is invisible to those who are isolating. I mean, truly. They don't have to leave their homes. You've got DoorDash and Uber and Amazon. It's all being delivered. Meanwhile, people who are responsible for getting food, delivering everything that is needed, yeah, they can't stay at home. Even if they could, the conditions are just so different.

Grant Williams:

So Peter, do you think that was reflected in the election? Because when I hear you talk about that, it makes me think, "Why didn't Trump win?" I mean, when you look at the electoral map by county, it's extraordinarily red right across the entire country. So do you think Trump would have fared much worse, had it not been for that dynamic you just talked about?



Peter Atwater:

I think that both parties are guilty of this because I don't think either party did a good job. The two political parties believed the biggest divide is left-right. Both of them are missing it's up-down. I think if President Trump had been more inclusive of the urban poor in his message, this would have been a very different outcome. Similarly, I think if the Democrats had been more cognizant of the rural poor, the non-metropolitan poor, the result would have been even more compelling. But they're so focused on this right-left relationship battle. It's like, guys, somebody's going to come out of the blue who can unify the working class of this country and create a revolution if the two parties aren't careful.

Grant Williams:

Do you see that? Do you see any person like that when you look across the landscape?

Peter Atwater:

I don't see that person today, but what's been so interesting about 2020 is the speed at which movements, grassroots efforts, have coalesced into national movements. So what I don't know is, and they will always be out there, is what's the unifying event that draws those at the bottom together in opposition to those at the top? Because I think the elite are extraordinarily vulnerable here.

Stephanie Pomboy:

Well, the George Floyd incident seemed to be one of those events.

Peter Atwater:

Yeah. But it was polarizing at the same time because it became about power, not economics. I think if the dynamic changes to a conversation around economics, then these dividing lines get really scrambled up again.

Grant Williams:

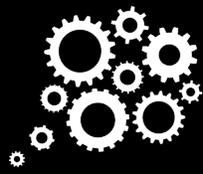
Peter, obviously to me, the clearest, I won't say the biggest, but the clearest dividing line is economy versus stock market. That's a place that you can look at just about all the inputs and get a very, very different story. Again, this feeds into that up-down struggle that you talk about. So just talk a little bit about what you see, that disconnect and how you either explain that away or whether you can't.

Peter Atwater:

Well, I look at DoorDash today, so we're doing this interview in the afternoon DoorDash has just gone public. It's remarkable to me. We now have a company that's worth \$50 billion. It is driven by an ability to hire, well, not hire, subcontract, right? So it's monetizing the gig economy. I tweeted earlier today, it's like the upstairs doing an IPO on the downstairs and advertising in this respect is that the reason the downstairs is so valuable is because we don't pay them anything. I think that's the dilemma that we're seeing across the corporate spaces. The companies themselves are incredibly profitable, but on the backs of workers... You look at Amazon, you can go through the list. Nobody believes that they will ever be able to come together, that the union is dead, collective bargaining is dead. I wouldn't bet on that if things get worse.

Grant Williams:

But I have to wonder what it would take for that to happen because you would think, given what's happening, given just the amazing disparity in performance, that by now, people would have caught on to



what's going on here. They would have figured out that the rich are not only keep getting richer, but the pace at which they're getting richer has picked up nonstop almost since that V bottom March low in the stock market. Nothing to do with the equity market. Not even the economy, sorry. Now, we're seeing some of these charts. I think it was you that coined the K-shaped recovery. You were very early on that. That's what's playing out now. We're seeing a lot of these charts starting to roll over. If you put the S&P 500 against just about any metric, and whether it's retail or whether it's consumer, whether it's travel, whether it's leisure, whatever, the K is there for all to see. Does that mean, perhaps, that we're at that point now where what you just spoke about becomes more and more likely?

Peter Atwater:

I think what's prevented it to date, Grant, has been the belief that when the pandemic ends, people will return to what was at the beginning of 2020. Remember, coming into this year, you saw nice wage growth, particularly for those at the bottom, you saw a sense that things were really beginning to click, so that mythology is really compelling to people who believe that the pandemic is an event. The challenge will be, if we don't see additional fiscal stimulus for those at the bottom, if this takes longer for the vaccine, that conditions do deteriorate, then I think you have that sense of hopelessness, that sense of being unheard that manifests into collective behavior.

Stephanie Pomboy:

Ultimately that K can be resolved by having what you're talking about where the low end just continues to deteriorate and you don't get that support. If that link in the chain breaks, that could fuel the risk off that just annihilates the top end of the K that's been living in la la land in this euphoric market, wouldn't you think? Or is that not how it gets resolved?

Peter Atwater:

I think it does get resolved. Steph, to your point, in every dimension, so the shareholder is brought forth as being an adversary, so we're going to go after the elite in demanding wages versus shareholder dividends. You're not going to see companies enabled to eliminate employees-

Stephanie Pomboy:

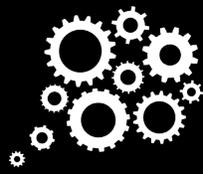
And buy back shares.

Peter Atwater:

... to create dividends. The Exxon story about culling employees to pay the dividend. Well, if mood shifts, that's going to be a really tough sell. So you can go through all of the levers that have benefit those at the top and start to flip them pretty quickly in the other direction.

Stephanie Pomboy:

That's what's kind of interesting about the reaction to the election outcome is this... I mean, I understand that there is this consensus that the Republicans will hold the Senate, so basically we have got four years of gridlock. But even if that is true, and it's not clear that it is, the first thing that Biden is going to do is reconstitute the CFPB that was basically neutered under Trump and all the financial regulation. Can't they just, with a stroke of a pen, bring all that back? Isn't that a major threat to the markets?



Peter Atwater:

So you have regulation as a threat? I would put it out there that you have higher interest rates as a threat. I think the whole concept of modern monetary theory can only exist when interest rates are near zero. So the higher rates go, the more you're going to see opposition to monetizing debt. Excessive stimulus. So you're in this situation where you have higher rates, you have lower profits. Things translating right into those time value of money calculations at every turn. Suddenly, what looked like a great stock market becomes very vulnerable.

Stephanie Pomboy:

I was going to cast back and ask you, given the amount of euphoria that we see right now, what strikes me is pretty much some of the most extreme I can recall. Are there periods that you view as parallel or analogous in any way or do you think that we're not yet at... I guess what I'm trying to figure out, what I'm trying to get you to say, is where are we on the arc of euphoria? Are we at the end? Is there more pain for some of us to come?

Peter Atwater:

So I think we have... I mean, nothing exceeds like excess. So it becomes dangerous saying this is the week when stupidity finally went to idiocy or whatever happens at the mania at the top. But I do think either the moment has just passed or is the moment is rapidly approaching because the consensus, the belief that once we get past this pandemic, it's going to be unicorns and rainbows for as far as the eye can see, and in everything. I think that's the thing, Steph, that's so wild about where we are, is everywhere I look, it's mania. Cryptocurrencies, in bonds, sovereign debt in Europe. You just go one category after another and go, "Is nothing sane?"

Grant Williams:

Energy, I would throw into the mix perhaps. Peter, just talk about that. You mentioned the C-word, which is normally to boo in podcasts, but in this case, let's talk about it. Because cryptocurrencies have before been a great barometer for turning points in sentiment.

Stephanie Pomboy:

I'm glad you clarified that because I was wondering what the C-word was going to be.

Peter Atwater:

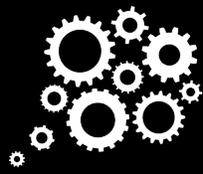
I don't use the C-word.

Grant Williams:

Well, I've got it all on tape. But crypto, this time versus December 2017. Do you see similarities? Parallels? Is this time different? It feels, actually, there's a little bit more substance to the crypto rally, this particular Bitcoin rally this time, because it's not dragging all this other nonsense with it. But when you look at the cryptos, what do you make of what's happening right now?

Peter Atwater:

So I look at cryptos in the same way I look at EVs. The same way I look at SpaceX. It's a very futuristic, transformational, what could be Futurama concept. So I don't view it as a hedge for this or a hedge for that. I think it's a real transformational, new age instrument. Those only come out to play at extremes in senti-



ment. I agree with you that this feels different from December 2017. I mean, nobody's going to talk about it at the Thanksgiving table. But at the same time, I would say what's so interesting is the smart money does not believe it could ever be stupid today. The narrowness of the belief system on this one is fascinating. It's so concentrated in so few hands that the marginal buyer here, that I think they run the risk of having created a cabal that collapses on itself.

Stephanie Pomboy:

What are the numbers there? 2% of the holders own 95% or something like that?

Grant Williams:

Yeah, 95%. Yeah. Something like that.

Peter Atwater:

Yeah, and so to me, it's like so what do these 2% do when they're done buying? Where is the next bid coming from? There is nobody.

Grant Williams:

Well, see, but it's interesting you say that, Peter, this week particularly because we've seen MicroStrategy try to sell \$400 million of convertible notes to buy more Bitcoin. So, I mean, there, you can look at that two ways, right? You can either say, "Here's a visionary who's putting his money where his mouth is," and I've seen Michael Saylor talk, he's a very erudite, very smart guy. You could also throat it and say, "Well, he's trying to get more air in the bubble and keep this thing going up." When you look at things like that, companies deliberately turning themselves into proxies for these high flying assets, what kind of lessons do you take from past periods of similar nature?

Peter Atwater:

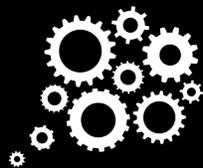
So I take a couple of observations there. One is it's telling to me that we have record prices and now is the time we're adding leverage to the situation. So that, to me, is always a bell ringer. But I also think, to your point, there is this belief among the smart money guys that the retail crowd is now going to follow in. That they can take this... They don't believe they could possibly be the bag holders. They think that they've elevated the price. Now is the time that the crowd is going to look and go, "Oh, we're going to jump in," and that 2% thinks they're now going to quietly exit as this crowd rushes in. I'm not seeing that happening this time. As I said, I think this has the potential to be an enormous head fake.

Stephanie Pomboy:

This seems parallel to what we were talking about earlier with the money mountain and the cash on the sidelines and this idea, the headline today, that there's all this money and pent up saving and it's going to come into the stock market. It's the same idea that, hey, when the dumb money comes in, we can all gracefully exit. But that idea has been around for a long time now. It's just on steroids, as you say, in the Bitcoin space for sure.

Grant Williams:

I just have to put a timestamp on the moment in this podcast, like every podcast I do when I lose the Bitcoin audience. So I just want to make it 43-odd minutes. So okay, just want to make sure. So Peter, just looking across the landscape, your Twitter feed is always must-read stuff for me because you have a hab-



it of not only identifying these articles that I read them and I kind of go, “That’s interesting.” Then I read them with an annoyingly clever pun that you seem to come up with and they’re way better than mine, and I read it in a whole new way. The importance of those headlines hits home in a much clearer way. I know you’ve been tweeting a lot about SPACs, so perhaps talk about how important you think those are and for what reasons. But what other things do you keep seeing headlines about that are on your radar?

Peter Atwater:

So of late, the metals. The commodity space is interesting to me from a media perspective in that you never hear about commodities until they’re within the 10 yard line or the end zone. It’s a fascinating, and behaviorally, I’d love to get inside the media’s head, but you never see articles about platinum, around these bizarre metals. Lumber was my favorite this summer. All of a sudden, mid-August, there are these big articles in the Wall Street Journal about lumber. That, to me, is such a classic indicator that okay, this weird thing is now getting attention. We’re getting close to it-

Grant Williams:

It’s lumber time.

Peter Atwater:

It’s lumber time. And so-

Stephanie Pomboy:

Commodities just aren’t sexy. That’s the problem. Bitcoin’s so much more interesting, right?

Peter Atwater:

Yeah, but even then, we had... This week, we had a big victory lap article with all the people who were smart who got in. So that also gets my attention. Let’s talk about SPACs. Let’s start with what they are. Blank check companies. Not sure from a sentiment perspective there’s a product that reveals itself so transparently. They are the ultimate sentiment barometer. What I love about them is they’re this fun Venn diagram. They’re one circle, but everything that seems to be overlapping into it is another mania. So payments, space, EVs, I’m just waiting for the Bitcoin entity to go public via SPAC. That, to me, would be a home run.

Peter Atwater:

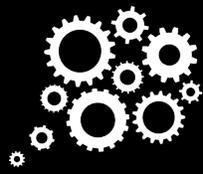
But what you’re also starting to see, and my jaw drops, but not surprising, and this actually reminds me of an experience Steph had at the top of the dotcom bubble. I don’t know if she remembers telling this story, but at the top of the dotcom bubble, you, Steph, you said that you were approached by people who were raising money-

Stephanie Pomboy:

I was just going to say this.

Peter Atwater:

Go ahead, tell the story because it’s your story.



Stephanie Pomboy:

For companies in the pre-idea stage... Is that what you were... Right?

Peter Atwater:

Yeah.

Stephanie Pomboy:

Wait, wait. Wait for it. I feel an idea coming on.

Peter Atwater:

Yeah, they wanted-

Grant Williams:

How much are you looking for, Steph? Because you've had some good ideas over the years.

Stephanie Pomboy:

Just a couple hundred million.

Peter Atwater:

Yeah, and they were raising money. They didn't have the people, but they thought that they knew the smart people to go get it.

Stephanie Pomboy:

Right, exactly.

Peter Atwater:

Whatever the idea was. I saw today that we now have SPACs that are going to go public at a premium to the unit price because investors are so convinced that these SPAC sponsors know exactly the folks to get.

Stephanie Pomboy:

Wow. They've got the magic crystal ball that they're...

Peter Atwater:

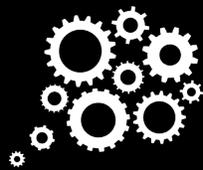
Yeah.

Stephanie Pomboy:

Oh, my God. It is so much like the dotcom bubble. That was the first thought I had when you started describing it.

Grant Williams:

But let's pick this apart because I find this fascinating too, because like you, Steph, this reminds me so much of the companies. I remember reading descriptions on Bloomberg talking about how they were going to launch a business, but at the moment, they weren't a business, but they just raised-



Stephanie Pomboy:

100 million.

Grant Williams:

... back then, tiny amounts. 100 million. But Peter, is it just purely this ocean of liquidity and more importantly, perhaps, the belief that no matter what happens, a solution is more liquidities? Is that what's doing this, you think? Or is there something more too? Because it seems like these bells are going off absolutely everywhere.

Peter Atwater:

Yeah, I think the Fed and other central banks unknowingly, or maybe knowingly, in their response to the pandemic made it absolutely clear. I mean, they were writing words on the side of a barn, "We have your back. We will not allow asset values to fall." You saw in March. Normally lows in the market are met by fear. But what you saw with the Robinhood traders, what you saw with the day to day traders, was this enormous rallying cry, this now is the time to get in. I've never seen a low where people were so universally... Retail investors were universally enthusiastic because it was not about being smart. This was the Fed is going to rescue you and this boat is not going to just rise, it's going to bounce up out of the water. And they've been rewarded.

Peter Atwater:

So it puts the Fed in a big bind because, talking about the K-shaped recovery, that's not anything new. I mean, this whole past decade has been an environment where the top have done really well while the bottom hasn't. I don't think people appreciate that the resonance of that theme is what's so important about the K-shaped recovery. Because it has put out into the vernacular, in a very simplistic, easy to understand, widely accepted notion, that things are not fair, that inequity has become too extreme. I think it's painting the Fed into a box because they cannot go back and save the elite again because-

Grant Williams:

Doesn't mean they're weren't trying.

Peter Atwater:

I mean, we have protests in the Bank of France already.

Grant Williams:

Well, the French love a protest. They'll protest anything in French.

Stephanie Pomboy:

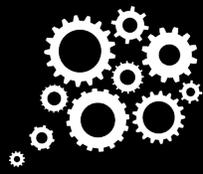
But they-

Grant Williams:

They don't mind.

Stephanie Pomboy:

Yeah, I mean, I guess, do you think that this is why the Fed seems to be so terrified right now? I mean, their reaction to Mnuchin reclaiming that money for credit facilities was, I would say, borderline hysterical and



shockingly so, to me, considering that in terms of how much they had actually deployed, which was essentially zero dollars, ostensibly they serve no role, so what's the big fuss? But symbolically it was so important, it seems like, to your point about that confidence that the Fed has the market's back.

Peter Atwater:

I think the policymakers, I suspect, know very clearly, they only work top-down. The only way monetary policy functions is through the banking system, through financial assets, boosting the wealth of those at the top. I think that the middle market program was an attempt on the part of the Fed to try to demonstrate that they could do something from the middle. They clearly recognized that they cannot lend to those at the bottom. That's a risk they can't take. So I think that for the Fed, holding onto that was an attempt on their part to say, "Hey, we are trying to do something beyond enriching the Hamptons." I think that the Fed is going to come under greater and greater attack as it becomes clearer that no, you only help the rich.

Stephanie Pomboy:

Yeah. Isn't that going to push us, inevitably, toward MMT?

Peter Atwater:

So that, to me, is the question. I think, as I sit here today, looking at the markets, you have to make a call on MMT. Is hyperinflation the future? Is this simply the first wave of a much greater wave higher where we devalue the currency in exchange for the perception of sustainable asset values? Or is this the end of the line? Do financial assets have to begin to accept reality? I think both of those scenarios potentially exist. It's a real fork in the road. Either way, I think inflation is inevitable and it may take some deflation first-

Grant Williams:

Yeah. Right. I agree with that.

Peter Atwater:

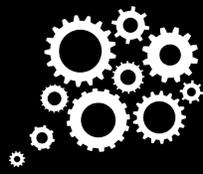
... but I think inflation is inevitable.

Grant Williams:

The other thing that feels inevitable, and again, I'm sure this is something that you've been paying close attention to, is the "great reset" that we keep reading about. This ominous sounding phrase crops up in all sorts of places. It came from, I think the WEF were the architects of it. But it's being parroted by just about everybody, as is this other phrase building back better. We are seeing very, very clearly now, if you're paying any attention whatsoever, that there is a framework being eased into place here that is pretty ubiquitous. Because I guess the problems are the same all around the world and so the solutions are probably going to be the same. Am I being a tin foil hat guy? Or when you read that stuff, what are you seeing in those phrases and others like them?

Peter Atwater:

What I sense in those phrases is incredible tension between maintaining a global economy and responding to national pressures at the same time. Looking at the 2020 election, it didn't matter to me who the winner was. America was going to become more nationalistic because that's where mood is driving us. So this need to be more self-sustaining, adjusting case economy as opposed to the adjusting time economy, and



the inefficiencies that go along with it. The challenge for policymakers is going to be maintaining currency relationships through this challenging turbulence because currencies become a weapon. I think we're reaching a point in Europe where the ECB is going to have to begin to respond to the dollar weakness. How is China going to respond to-

Stephanie Pomboy:
Strength in the yuan.

Peter Atwater:
... the strength in the yuan? Both of those currencies seem ripe for an unexpected turnabout potentially nearing the same time.

Stephanie Pomboy:
Which should hopefully be good for gold, but hey. I've given up trying to hope for that. Grant asked earlier about headlines that are getting your attention right now and I wanted to ask you to cast back to your prior career and ask you if any of the financial sector headlines had captured your attention? Because I'm sitting here looking at a clipping that I took out of the paper last week. GM plans to seek-

Grant Williams:
That's so old school, Steph. That's so old school.

Stephanie Pomboy:
Yeah, it is. It's-

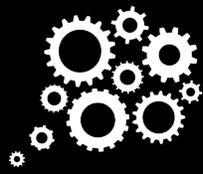
Grant Williams:
Clipping out of a newspaper.

Stephanie Pomboy:
Oh, I thought you were going to say from last week, which is now 10 years ago.

Grant Williams:
No, no. I just meant actually clipping out of the newspaper. That's impressive.

Stephanie Pomboy:
I do that. GM plans to seek banking charter. To me, that just got my hair standing on end because obviously they got out of the finance business right after the great recession and here they are now, at what I would argue is the absolute extreme in the credit cycle, looking to get back in. But do you see any other, aside from the SPAC thing, I mean, are there any things like that that get your attention these days as opportunities?

Peter Atwater:
Yeah, so let's stick with GM. The headlines, I don't know if it was last week or the week before, but GM going all in on EVs. That stuff is very consistent with the same mindset that you've just said. They are culturally in a place where the future feels really, really bright and they're looking to capitalize on it. Look at their misguided attempt with Nikola. And having just hired a transformational guy to execute that. I mean, it



reminds me of their hubris with Cadillac a couple of years ago where we're going to move to SoHo. It's like, gosh, you all just called the peak of the luxury market. So that's a cluster of headlines that is significant to me.

Peter Atwater:

In terms of other headlines like that, in the finance space, you look at the acquisitions that Morgan Stanley has announced in the last six months. I mean, two enormous asset management acquisitions. It feels like Morgan Stanley is behaving consistent with the mood of the asset management industry, feeling like, "Okay, we are winning the consolidation war." It reminds me of the banking industry roll-ups that we saw prior to crises. James Gorman is now the belle of the ball among his Wall Street peers. Look at all the smart things he's done. Not to say he hasn't, but he's doubling down enormous size with asset values at their peak.

Stephanie Pomboy:

Yeah. No, it feels the same way to me. But I just was looking for confirmation that I'm not completely insane.

Peter Atwater:

Let me just add one other dimension. You talk about headlines. I think it's really interesting that you're seeing an influx of asset managers, AKA BlackRock employees, into the Biden White House team. It reminds me, if we go back to the '60s, you had McNamara from Ford going into the political space at the top of that. You've had Gary Cohn and the banking folks, Paulson. Then you have Mnuchin from the private equity space. I think it's sort of like hosting the Olympics. You only host the Olympics at the very top. You only go into political life at the very top. So I'm curious to see if what we're seeing now is some kind of bell ringing for asset management.

Grant Williams:

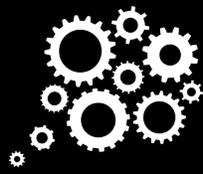
Peter, kind of on a slight tangent, but before we wrap up, I just wanted to get your thoughts on Janet Yellen's likely appointment to Treasury and what that potentially means. Because it feels to me like it's almost necessary at this point that you have a Fed insider at the Treasury, but does that signify anything to you in particular?

Peter Atwater:

I think it's an interesting blurring of the line between monetary and fiscal policy. It strikes me in a different respect, but a parallel in what we're seeing over at the Pentagon with the blurring between military and civilian. Worlds that historically have been kept deliberately apart seem to be blurring together. In both cases, you have individuals of extraordinary credibility, but the question is role. I'm not sure Janet Yellen is the political beast that others who have succeeded in the role of Secretary of the Treasury have brought to the table. Smart, conscientious. She's got lots of positive attributes, but being Secretary of the Treasury's a different role. So I'm curious to see how she plays in that job, particularly coming into it at this particular junction.

Stephanie Pomboy:

Yeah, I suspect she is going to be challenged pretty heavily. But she'd probably be happy not to be considered a beast.



Grant Williams:

Of any kind. Well, look, Peter, thank you so much for taking this time to chat with us. It's been fascinating as it always is whenever we get a chance to talk. But before we let you go, perhaps you could let people know the usual stuff. How to follow you, how to find out more about the stuff you do. Because as I say, for me, I read your Twitter thing religiously. There's so much great stuff in there. But also, your letter as well. Let people know how they can follow you more.

Peter Atwater:

Sure, so I'm on Twitter as PeterAtwater. They can find me either via peteratwater.com or through Financial Insights. As Steph and Grant know, every week I, in good weeks and bad, try to convey what the headlines and the messages are saying about sentiment.

Grant Williams:

Yeah, and that's Insights with a Y in case you're looking for it and you can't find it. I'll tell everyone. Peter, thank you so much for your time and hopefully the three of us can actually get together and have dinner together sometime soon.

Stephanie Pomboy:

That would be nice.

Peter Atwater:

Definitely. Sounds great.

Stephanie Pomboy:

Great to see you.

Grant Williams:

All right. Take care. Thanks again.

Stephanie Pomboy:

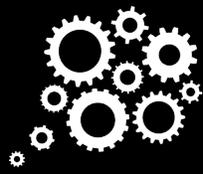
Thank you.

Grant Williams:

Well, Steph, I have to say, as always, when I talk to Peter, it just leaves me with so much to think about and so many... There's so many of these things that I keep seeing floating around. I think that point we talked about there at the end is important, this idea that it's never been more obvious how messed up things are, but never the more confusing that it doesn't seem to matter. I just can't get past that.

Stephanie Pomboy:

But conversations like this make me feel more comfortable that there is a broad picture here that is clear if you step back. It's sort of like standing in front of a Seurat painting. If you stand too close, all you see is all the little dots, but if you take a couple steps back... Peter is really good at showing how all those dots actually, that appear completely unrelated, form the same picture in a way that's really powerful and vivid when you hear the way he compares the SPACs to the financials to... Just there is a broad narrative, the political narrative, et cetera. So I don't know.



Grant Williams:

Yeah, I mean, Peter's work to me is like having that Barron's Cover from a year ago, having it in real time, because he just points these things out. You're right, it does. I think timeframe is so important for the people who are watching the market, watching every tick. It is impossible. If you have the luxury of not being forced to do that and you can step back and take a look at this stuff... Like your piece on the dollar that we talked about earlier on, stepping back and looking at it gives you a completely different picture of what's happening than in the trenches, is the DXY going up or down, you're right, you're wrong, all that stuff, which is fine for a day or two here or there, but the bigger trends are there if you want to sit back and look at them, but summon up Peter's useful guide for that stuff.

Stephanie Pomboy:

Absolutely. No, and it's going to be interesting to continue to chronicle the next phases in this wild euphoria that we're going through, but yes.

Grant Williams:

Ain't that the truth. Ain't that the truth.

Stephanie Pomboy:

We'll have plenty for us to talk about in future Super Terrific Happy Hour.

Grant Williams:

That is the good news. Well, now, all that remains is to thank you out there for listening to us. To remind you, if you've got a second, to write and review the podcast on iTunes or whatever app that you get your podcasts from. Every bit helps for us. You can find me on Twitter should you so desire @ttmygh.

Stephanie Pomboy:

And I'm @spomboy. That's it.

Grant Williams:

Yes, you are. For the first time. Do check out Peter Atwater. You can find him @peteratwater, that's one T. Well, actually two Ts, but not together in the middle. One at the beginning, one at water. You'll figure it out. Thanks for listening. We'll see you next time.

Stephanie Pomboy:

And one in the Peter. Yeah.

Grant Williams:

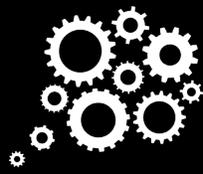
Oh, yeah, one in the Peter.

Stephanie Pomboy:

So it's three Ts.

Grant Williams:

Cut that. Cut that. Cut that.



Stephanie Pomboy:
Sayonara.

Grant Williams:
Okay.

Stephanie Pomboy:
Happy holidays.

Peter Atwater:
So what did I say that you all strongly feel otherwise? Or where is-

Stephanie Pomboy:
Oh, my gosh.

Peter Atwater:
Where are the gaps?

Grant Williams:
Well, no, that's the worrying thing for me, that that's the thing that I struggle with. Because never has it seemed simultaneously more clear or more confusing. More clear as to what should happen and more confusing is because-

Stephanie Pomboy:
It's not happening. Exactly.

Grant Williams:
Yeah. It's really weird.

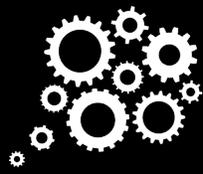
Stephanie Pomboy:
It's crazy to me. I mean, that's why I asked the question about how far along we are in this euphoria because I keep thinking it can't possibly get any more insane and then it just goes another mountain higher.

Peter Atwater:
Yeah, it feels to me this week, something is in the water. Just really weird. DoorDash today, it's-

Grant Williams:
Yeah. When's Airbnb?

Peter Atwater:
[crosstalk 01:03:35]. Yeah, and we'll have Airbnb, yeah.

Grant Williams:
Yeah, when is that? I've lost track of what day it is. It's soon though, right?



Peter Atwater:

It's next week sometime.

Grant Williams:

Yeah, okay. It was a week away. Yeah. Yeah, that'll be interesting too. But yeah, who knows? I mean, something's going to mark the top. I just can't wait to find out what it is. I keep thinking it's that and then up we go again. It's crazy.

Stephanie Pomboy:

Well, the crazy thing to me too is the reaction to the election. I mean, the vaccine, I understand people feel like, okay, well, now there's a light at the end of the tunnel and we have a timeframe at least on when that's going to happen. But why a administration that's certainly, maybe not directly antagonistic to Wall Street and to business, but certainly not as supportive as the prior one, would be greeted with such incredibly euphoria.

Peter Atwater:

My take on that is with the Trump Administration, businesses felt control, but not certainty.

Stephanie Pomboy:

Yeah, that's a good point.

Peter Atwater:

With Biden, they feel certainty, but no control. Neither candidate would give both. I think the euphoria that we're seeing is that sense of things calming down, but I don't know that they fully appreciate, to your point, what that fully means. Calm means regulation. Calm means-

Stephanie Pomboy:

Right, maybe higher taxes. I mean-

Peter Atwater:

Yeah. Higher taxes. Yeah.

Stephanie Pomboy:

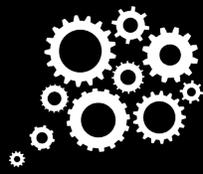
Well, I just saw it while we were chatting, the headline come across Bloomberg, New York needs to raise taxes, there's a bombshell, Andrew Cuomo says. I mean, even if we don't get the corporate tax increase, this is going to be... We're going to see that in the states and cities all around the country for sure.

Grant Williams:

For sure. We're going to have to. I mean, the U.K., the Chancellor of the Exchequer is already talking about tax increases in 2022, which seems like a really odd thing to do. I don't know why you're going to tell people now.

Stephanie Pomboy:

Right? Right? Just to make-



Grant Williams:

Like taxing in 2022?

Stephanie Pomboy:

Right. Brace yourself.

Grant Williams:

Just keep quiet. Sneak up on it.

Peter Atwater:

At the same time, I keep thinking that our government, the state that's struggling, now is the time to just say, "We're filing for bankruptcy." You get a competitive advantage.

Stephanie Pomboy:

Yeah, first move [crosstalk 01:06:16]-

Peter Atwater:

I am watching that. I am watching all these retailers and it's becoming a requirement to be in business because if everybody else is doing it, you got to compete.

Grant Williams:

Yeah. Yeah. Boy, oh, boy.

Stephanie Pomboy:

I know. It's just so perverse.

Grant Williams:

What a world.

Stephanie Pomboy:

But maybe hurts the state that files bankruptcy while their immunities will become incredibly valuable.

Grant Williams:

Oh, yeah. Wait until the Robinhood crowd get into bankrupt immunities.

Stephanie Pomboy:

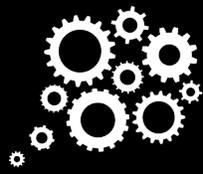
Right? Exactly. They're going to get into the immunities. Oh, my God.

Grant Williams:

Oh, boy. All right, Peter.

Peter Atwater:

Stealing from the rich and giving to the poor. What's-



Stephanie Pomboy:
Right?

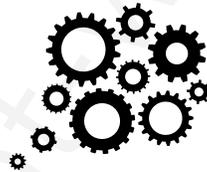
Peter Atwater:
I am really struck by the Robinhood name. Like did nobody-

Stephanie Pomboy:
Right? Right?

Grant Williams:
It's very ironic. It is very ironic.

Stephanie Pomboy:
It is ironic, yes. Oh, my gosh.

Grant Williams:
Nothing we discussed during the Super Terrific Happy Hour should be considered as investment advice. This conversation is for informational and, hopefully, entertainment purposes only. So while we hope you found it both informative and entertaining, to say nothing of super and terrific of course, please do your own research or speak to a financial advisor before putting a dime of your money into these crazy markets.



GRANT WILLIAMS

The Grant Williams Podcast, including *The End Game*, *The Super Terrific Happy Hour* and *The Narrative Game* represents the Copper Tier of grant-williams.com and serves as a prelude to *Things That Make You Go Hmmm...*, Grant's monthly newsletter which, over the past decade has become one of the most widely-read financial publications in the world.

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