Transcript: Corporate Debt and the Next Recession

Featuring: Jeff Gundlach

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Synopsis: In this wide ranging interview with Grant Williams, Jeff Gundlach, the founder and CEO of DoubleLine Capital, provides his valuable insights on the dollar, the explosion of the corporate bond market, and the rise of ETFs and passive strategies. He also touches on politics, weighing in on what “wealth tax” proposals will mean for the 2020 election. Filmed on February 20, 2019 in Los Angeles.

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EFF GUNDLACH: Powell was thought to be different than the other Fed chairs.

GRANT WILLIAMS: I fell for it, too.

JEFF GUNDLACH: Yeah. He was supposed to be non-academic. He doesn't have a PhD in Economics. And I think the word was pragmatic. Fundamentally, I think we're in a bear market.

Global equities peaked way back on January 26th of 2018. None of these things are at the alarm bell recession, but they're getting fairly close. ETFs and passive investing broadly is the definition of momentum. It's pure momentum investing. You own more and more and more of the stuff that's gone up the most, and you own less and less and less of the stuff that's now cheap.

One of the things that might really start to fuel changes in relative value might be if the wealth tax concept actually starts to go truly mainstream, and I've got news for you. It's sort of already is. I've been really recommending that if you want ever to own gold, the time to do it was basically last summer. I'm really most worried about just the basic divide everywhere in the world-- just the whole have, have not thing, which is ushering in fractured politics everywhere, and it's not going to end until it fully ends.

GRANT WILLIAMS: Hi. I'm in Los Angeles, California to sit down and have a chat with Jeff Gundlach of DoubleLine. Jeff needs no introduction. He's always got something to say, and he's one of the most cerebral money managers out there today. I'm going to talk to him about politics, the dollar, the bond market, the equity market. There's so much ground I want to cover, and we've got a limited amount of his time, so let's dive straight into it.

Jeff, thanks very much. Great to see you again.

JEFF GUNDLACH: Good to see you, Grant.

GRANT WILLIAMS: Thanks for doing this. I know you've not been well. Neither of us have been. So we'll try and get--

JEFF GUNDLACH: It's the time of year.

GRANT WILLIAMS: It's that time of year here in a very cold Los Angeles. There's so much I want to talk to you about, but I want to start with the stock market. And it's something that has been on my mind, and that is December. Did something change in December? Or was it just a glitch, as it's been nailed?

JEFF GUNDLACH: Well, I think that the attitude about Jay Powell really changed a lot during December. It really kind of changed twice. First, it changed in a way that accelerated the stock market lower. And I think that also had something to do with year-end. I there was-- people adjust things at year-end. There may be some selling and the like. But Powell was thought to be different than the other Fed chairs.
GRANT WILLIAMS: I fell for it, too.

JEFF GUNDLACH: Yeah. He was supposed to be non-academic. He doesn't have PhD in Economics. And I think the word was pragmatic for Jay Powell. And then he showed up after the rate hike at the press conference, and he sounded very different than being pragmatic. He basically said, we're on autopilot with quantitative tightening, which is the last thing that a falling stock market needs to hear because quantitative easing seems to be correlated with higher prices than quantitative tightening.

It is interesting that the global stock market really accelerated to the downside in October, which was when QT was ramped up to a maximum of $50 billion per month. So Powell says we're on autopilot, which the market was shocked to hear because they thought he was pragmatic and wouldn't be rigid in his thinking. And then he also used the word models a lot, inputs to the models. And all of a sudden, he sounded as wonky as any Fed chair ever gets and kind of detached from being pragmatic, and the market didn't like that at all.

So it accelerated— I think it about dropped 800 points from when he opened his mouth to the end of the press conference. And that scared him, and we had a complete 180 from the pragmatic Powell to the Powell put, which wasn't supposed to exist at all.

GRANT WILLIAMS: No.

JEFF GUNDLACH: And I don't think I can remember a rhetorical shift so rapid and so major from a Fed chair because just a few days later, with the stock market in freefall, it's all about patience, and I didn't really ever say really that we were close-minded on quantitative tightening. And we trotted out many Fed officials to go along with this, and then there was that fateful afternoon where he was onstage with Bernanke and Janet Yellen. And suddenly, it was one big dove fest— and a love fest, probably.

Ever since then, it's like Powell put, and Fed's got your back, and also, year-end kicked in, where I think there's a lot of rebalancing, and I think it started maybe just before year-end. So put in the low intraday on December 26, the low close was the 24th. And I think the rebalancing was pretty major because stock market suddenly was negative— some significance for the year. And the bond market eked out a positive return. That leads rebalancers is to sell bonds and buy stocks, and that kind of started happening.

So fundamentally, I think we're in a bear market. Global equities peaked way back on January 26th of 2018. Right in the center of the coordinated global growth narrative, which was pretty well supported by the data. It was true, but it's all based upon stimulus and the like. And so you had a classic kind of rolling top formation.

Bear markets usually are preceded by something insane happening, and the insane thing goes on far longer than people believe that it should or could. So in the 1990s, it was dotcoms, where these IPOs were floated with no sales, let alone net revenue, and succeeded at IPO. And then in
'07, it was the insane lending standards and leverage and the structured finance market, which went on for about two years longer than seemed like it should have or could have.

And this time, it was cryptocurrency. So in 2017, you had this parabolic rise in BitCoin— we'll just use that as a placeholder— where suddenly it was a mania. And that was observed because of Long Island Iced Tea changed its name to Long Island Blockchain. Kodak, which had $100 million market caps, probably nothing really there— they said they were going to Kodak Coin, as if they could do that with $100 market cap. And the stocks went up 400% on these announcements, which was very reminiscent of the mentality of the dotcoms.

Then, Bitcoin started crashing about a month before the global stock market went to its peak. So that was the front edge of the beginning of, I think, a risk bear market. And global stocks, January 26th, and then utilities, and then transports, and then the Dow, and then the S&P, and finally the NASDAQ went to new high into the early part of the fall. And that was down to the FANGs, and then it was down to Amazon and Apple, and then Amazon gave it up, and then Apple announced, we don't really want to tell you how many phones we sell because it sounds to me like it's not good news. Otherwise, they'd probably be fairly comfortable reporting it.

So down we went, and we had what people call a bear market— 20%— not on a close in the S&P, but intraday, and every other index did the 20%. But 20% is obviously an arbitrary number. It's more of a mentality.

GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: It's more of a change in preferences and the way people think about things. So we've had this spectacular multi-week retracement, but I just don't think things are fundamentally healthy.

GRANT WILLIAMS: Yeah, that's what it feels like because looking at those markets in October and November and then into the depths of December— the numbers are better at the headline stage, but once you looked under at the plumbing, it looked really as though things got shaken quite severely. And yet, we've seen this v bounce, and I'm interested, because people who have been around for a long, long time who were very worried in October, November, December seem very sanguine again now, which I find curious. Is all because they suddenly believe that the Fed has turned around, and they are going to slow down QT?

JEFF GUNDLACH: I think you have to point to the Fed because the economic data continues to deteriorate. And we're starting to see reversals and unemployment claims now rising on a four-week moving average basis. We're starting to see earnings estimates collapsing, margin estimates collapsing, sales dropping. You see housing is negative, Surprise indices confidence is deteriorating. None of these things are at the alarm-bell recession, but they're getting fairly close.

I mean, we were miles away from anything resembling a caution signal in the economy back in September, but there's been pretty much across the board deterioration in the economic Surprise data and just data changes and the like. High-yield spreads have come in a lot from their wides of
December, but they still have a look that isn’t really all that long-term sanguine. And I think what people will increasingly understand is just how out of kilter our debt situation is at the federal level, and forget about state and local, which is another problem, but just focusing on federal.

I mean, in 2018, for the calendar year-- not the fiscal, which ends in September-- but for the calendar year, the data was just announced recently-- the national debt increased by $1.48 trillion. Now, that’s about 7% of GDP. And this is when we’re supposedly in a good economy with 3% real GDP, 5.3% nominal through September. We don’t have the data through year-end yet.

And you have to ask yourself, are we really growing at all in an organic way? Because the most recent data point on GDP, 5.3, is less than 7% of GDP, right? Less than the growth in the debt. So if we hadn’t grown the debt by 7% of GDP, I guess we’d have a negative economy right now.

And so what happens, I want us to ask, during the next recession, which maybe is coming-- again, no alarm bells blazing right now. But when it comes, just how big is the deficit going to be? Foreigners are not buying our debt anymore. The Fed, for now, is not buying our debt. They may change their mind again. Again, one of most amazing reversals-- autopilot QT to last week, an admission that they’re discussing using QE as a regular tool-- not just emergency, even when you’re not at zero interest rates. Just use it as part of your ordinary tool kit.

So what happens when the next recession comes? Will the deficit be 4 trillion? 3 trillion? I don’t know. But usually, the debt to GDP ratio goes up by 4%-- the deficit, sorry. Deficit to GDP ratio goes up by 4% from the good times to the recession. Does that mean we’re going to go to 11%? Maybe it’ll be worse than that. And people are starting to realize that the supply of bonds relative to the interest rate that we have right now seems like it’s a mismatch.

I just think if retail is supposed to be buying the bond market, maybe if you’re floating trillions of dollars bonds, maybe you need more than the yield on the 2-year treasury to get the 10-year sold and the 30-year sold. So we’ve had the Pavlovian reaction. Interestingly, when the stock market dropped, we got a nice bond rally, but yet it kind of held. As stock market has rebounded, bonds have fully gone quiet. They haven’t gone back to 340 on the 30-year. We’re hovering at 3%.

So it’s interesting that the bond market is so quiescent when these debt issues seem very big. There’s also $700 billion of corporate bonds maturing this year and more next year. And if they continue QT, we’ve got more on top of that. So it seems to me that the yield curve should be steepening, and particularly if the Fed is really going to get easy again and is thinking about maybe doing QE or needing to. It suggests to me that maybe long rates need to rise.

**GRANT WILLIAMS:** Yeah, this is interesting, because you’ve been talking about this, the debt issue for a while recently, and you’ve become more vociferous about it.

**JEFF GUNDLACH:** I’ve been talking about it really for about 10, 15 years.

**GRANT WILLIAMS:** Right.
JEFF GUNDLACH: But I announced in '12 or '13 that there's good news, people, as a debt where we are actually in a stable place, where we're not going to worry about it for the next few years because debt to GDP will actually stabilize, deficit doesn't have the entitlement compounding problems for the next few years. But I said we'll probably have to start worrying about in '18 or '19.

GRANT WILLIAMS: Right.

JEFF GUNDLACH: And so here we are.

GRANT WILLIAMS: But it's one of those things that the law of large numbers has applied. It's been such a big number. I mean, we haven't even talked about the 123 trillion.

JEFF GUNDLACH: 123 Trillion, six times GDP. If we wanted to fund our liabilities, the 123 trillion--over the next 60 years, we'd have to put 10% of our GDP aside, from negative 7 today to plus 10.

GRANT WILLIAMS: Right.

JEFF GUNDLACH: Which, of course, is impossible with today's currency value.

GRANT WILLIAMS: But everybody says that, and they say, you know what? So let's not even talk about that.

JEFF GUNDLACH: Sure.

GRANT WILLIAMS: But it is a real problem. These are real promises that have to be repaid.

JEFF GUNDLACH: Sure. You remember the guy that ate a Big Mac every day for a month?

GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: For the first three weeks, he was doing great.

GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: You know? Maybe this is the healthiest diet ever. And all of a sudden, the kidneys started shutting down.

GRANT WILLIAMS: Right.

JEFF GUNDLACH: It's the same thing. I mean, I heard President Trump, last week, was asked, gee, are you a little concerned about the $1.48 trillion of growth of the national debt? And he just said, growth will take care of it.
GRANT WILLIAMS: Right.

JEFF GUNDLACH: Well, I thought, wait a minute, Mr. President. I thought you said this is the greatest economy ever. If growth is taking care of it, why isn't it taking care of it?

GRANT WILLIAMS: Yeah. Plus, the deficit was announced at $800 billion.

JEFF GUNDLACH: Well, they lie. They don't count what are considered to be temporary military exercises, even though we've been at it for almost two decades. And they don't count natural disaster relief. And they'd say that they're getting loans from Social Security, which is like loaning myself money. So it's not really going to work.

GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: So it's really just a question of when the issue really does devolve into a crisis.

GRANT WILLIAMS: Are we any closer to there? Because it's been put off and put off and put off, but somewhere there's a line where it matters.

JEFF GUNDLACH: I think the date is no further into the future than 2025. If I use the CBO projections, this is now on interest expense for the full government. It's been stable at about 1.25%. In spite of the tremendous growth in debt, we've had interest rates decline. And of course, that works its way through with a lag. So the more recent interest rate rises haven't really factored into that much because that much debt has rolled over.

But the CBO says that around 2025 or so-- without a recession, which is a long time without a recession, and assuming some basic assumptions, which need to be challenged-- that we would have 3% of GDP in interest expense. That's 1 and 3/4 percent of GDP that just disappeared.

GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: And so you're starting to wonder, can you have economic growth at that point with that interest expense eating into the economic potential. And if you used a recession scenario, it would blow up very quickly. So I think that we're getting to the point where the compounding curve is very close to the point of no return.

GRANT WILLIAMS: Well, I mean, the other thing that's obviously going to exacerbate this on the political side of things-- obviously there's an awful lot of talk-- free everything. And that's gaining some serious traction. And whether or not you believe in the politicians putting this stuff forward-- a lot of people don't think AOC is a genuine threat because she's so young and inexperienced, but her policies are gaining some serious traction.

JEFF GUNDLACH: It's astonishing that the bartender-- this is just what I call Ocasio-Cortez because that was her profession prior-- she basically with 15,000 plus votes-- not even 16,000
votes-- has somehow been informally elected as the leader of the Democratic Party. And she had 15,700 votes, I think it was. That's it. But it shows that how out of sync things have started to become. I've been saying for-- well, since 2015, frankly-- I said if you think this election's weird, the one coming up in 2016, which Donald Trump is going to win, you ain't seen nothing yet.

I said, I think in 2020, you're going to see fracturing, so you might have more than two parties that really have funding. And today, Tom Friedman, I think his name is, wrote a piece suggesting exactly that. So my lunatic idea has now made it into at least part of the mainstream-- that you have a fracturing of the Democratic Party into the old line, try to build the pie into a redistribute the pie. Then you've got the Republicans, which were shattered in 2016. And will you have Trump running?

Depends if there's a recession or not. He won't run if there's a recession. He can't brag about the economy if we're in a recession. Nobody gets re-elected in a recession. But if he runs, will a Mitt Romney type try to be the adult in the room, as they call themselves, and fracture that into two parties? And I know we're going to get a Socialist running, that's for sure. Whether they have the mantle of the Democratic Party or not, I mean, there will definitely be.

GRANT WILLIAMS: Well, a Democratic Socialist-- don't forget.

JEFF GUNDLACH: It's funny how they put Democratic in front it because it makes it sound like it's better than it's forced upon you because you voted for it, I guess? But yeah, Democratic Socialist-- Bernie just announced that he's in the Democratic race, but his rhetoric has changed remarkably.

He's been transformed from the Socialist wing leader with basically an anti-Wall Street greed message back when announced in 2015. And now he's basically borrowed all of the identity politics rhetoric.

In his announcement on a video yesterday that he was throwing his hat in the ring, he talked about, we have to combat racism, sexism, bigotry, et cetera. And that was nowhere to be found in Bernie's rhetoric in 2015. So people have taken his ideas and run with them, and they're warmly embraced, the 2015 ideas. But he doesn't really quite seem relevant anymore because the way that you can get his ideas with a fresh young, energetic face on it.

GRANT WILLIAMS: We'll come back to politics, but I want to talk about the bond market, particularly the corporate bond market, because as I look across the landscape--

JEFF GUNDLACH: It's the biggest risk in the next recession.

GRANT WILLIAMS: Yeah. Exactly. To me, that looks like ground zero for real problems.

JEFF GUNDLACH: The problem with bonds-- where they go wrong-- is when people think they're in something safe, because they're safe people. They're oriented towards non-risk-taking. So they buy floating rate, AAA, subprime bonds in 2005, and they're not getting a huge return. They're
getting LIBOR plus 50, or something. But hey, it's more than LIBOR, and it's AAA, and it floats. So risk can't be found.

Well, then they woke up one day, and they were bid at 70, not at 100 anymore. And suddenly, they're now disabused of the notion that these are safe, and you can't really blame them for selling because they didn't sign up for this.

GRANT WILLIAMS: Sure.

JEFF GUNDLACH: Well, we have similar-- maybe not as egregious-- but it's an echo of a rating problem in the bond market right now, in the corporate bond market, where the corporate bond market has exploded in size. It's more than double where it was 10 or 12 years ago, and a lot of it is, I think, over-rated. There was a report by Morgan Stanley Research that suggested that fully, fully 45% of parts of the corporate bond market would be rated junk right now, if you use leverage ratios alone.

Now, they use more than leverage ratios. There's other variables that go into rating. But the leverage ratio seems to be really important.

GRANT WILLIAMS: Yeah, you would think. It used to be.

JEFF GUNDLACH: And the corporate debt as a percent of GDP is at a record high. And if you really had a recession, I have a feeling that the rating agencies, which have been reassured-- they listen with sympathetic ears to reassuring statements made by highly-leveraged corporations as long as they indicate that they're aware of the problem and have some desire to work towards a better place over the next few years.

Well, if there's a recession, there's not going to be any working towards a better place. And so all of those bonds potentially could be downgraded into a junk status. And as we all know, when a triple-B-rated corporate bond crosses the line into junk status, the price goes down. It doesn't go up. So you can find people that have poured into corporate bonds-- that includes corporate pension plans-- which thought that they had a clever idea of matching up their liabilities, which are discounted by the single-A long corporate rate, and so let's match them with assets that are corporate bonds, so they move together.

That sounds good until the recession comes because the single-A-rated corporate bond index will forever be rated single-A.

GRANT WILLIAMS: Right.

JEFF GUNDLACH: It may be populated with different names, but it will always be single-A, whereas the portfolios that are invested in single-A and triple-B corporate bonds-- they will get downgraded. And so suddenly, these corporations could realize, well, my safe solution turned out to be unsafe because let's say they just widened by-- and these are 20-year duration bonds.
GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: So there’s a lot of spread duration. So you can say, OK, maybe they widened by—let’s just pick a not terribly scary number—200 basis points, it could be much worse than that. You just lost 35%.

GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: Well, you just underperformed your solution by 35%. So will they sell? I think the answer is yes. And so if you have a misrated market, and it goes into a downgrade problem, you get tremendous forced selling. And that’s what happened in ’08 with the securitized market, and this time, I think it’s the corporate bond market’s turn.

GRANT WILLIAMS: Well, and we didn’t have ETFs back in ’08. I mean, that’s just going to exacerbate the problem.

JEFF GUNDLACH: Absolutely. I think ETFs and passive investing, broadly, is the definition of momentum. It’s pure momentum investing. You own more and more and more of the stuff that’s gone up the most. And you’ll own less and less and less of the stuff that’s now cheap. And so it’s classic momentum investing. So it helps momentum on the way up, and it will exacerbate momentum on the way down. And I think that’s part of what we saw in— if you want to call it a glitch, it’s a systematic glitch—

GRANT WILLIAMS: Right.

JEFF GUNDLACH: —because the ETFs haven’t gone away. So yeah, I think that passive investing is the flavor du jour. It continues to amaze me how the idea of passive is the path to success in equities, yet anti-passive, aggressive active management is successful in bonds.

GRANT WILLIAMS: In the bond market, yeah.

JEFF GUNDLACH: And yet these ideas live side-by-side together simultaneously. In fact, in the ’90s, it was exactly the opposite. People thought active equity was the place to go, and bonds had gone through a bad experience in 1994. And people said, I don’t want to do any of this weird stuff anymore. I want to just right down the center of the fairway index fund.

GRANT WILLIAMS: We never stop making the same mistakes.

JEFF GUNDLACH: That’s what’s so fascinating about it. It keeps going back and forth. I don’t read a lot of books, but on Martin Luther King Day, I read John Kenneth Galbraith—The Great Crash of 1929. Highly recommended, very easy read. He’s got an incredible vocabulary. You need a dictionary next to you. It’s almost like reading Jim Grant for the first time. It’s fascinating because a lot of the things that were happening—there was ridiculous amounts of leverage then and some crazy stuff was going on with margin rates and the like.
But the desire of the authorities to combat the decline seemed very familiar to December.

**GRANT WILLIAMS:** Yeah.

**JEFF GUNDLACH:** So it was really interesting to read.

**GRANT WILLIAMS:** So what does all this mean for the dollar? Because there's an awful lot of things we talked about—

**JEFF GUNDLACH:** My highest-conviction idea is that the dollar is going down longer term, longer term. I turned negative on the dollar above 100 on the Dixie index, and you'll remember that when the Fed first raised interest rates, way back in December of 2015, the consensus viewpoint was the dollar has to be screaming hot to the upside because the Fed's going to raise rates, and nobody else will.

And I pointed out in many presentations that that's not historically true. In fact, when the Fed's raising rates, it's very common for the dollar to initially decline. Buy the rumor, sell the news. The dollar went up into the Fed rate hike, and basically, it stayed at that elevated level and went up to 103 by January 2017. But dollar trends are very long-term, and there's really not much in terms of counter-trend along the way.

They're persistent and sustained, and they usually go on for about six to eight years. So if the top was 2015 to 2017, we're looking at 2021 to 2025 as the dollar bear case, which is very interesting, along with my 2025 deficit problem.

**GRANT WILLIAMS:** Yeah.

**JEFF GUNDLACH:** There's two ways to get out of the liability problem. You can devalue, or you can default. And devaluing probably is at least part of the solution. And so I think the dollar is going down. I am positive on emerging markets versus the US stock market. I've been that way very significantly since basically last September. That was one of my recommendations at the Barron's Roundtable.

Whereas if you're bullish just by EEM, and if you're bearish, pair it with a short on the S&P 500. And that is interesting because the emerging markets outperformed during the decline of the fourth quarter, which is very unusual. And it suggests significant underlying relative strength because with the dollar going up, and emerging markets not underperforming in the downtrend, it suggests that the cheapness, which is evident to all on things like the Shiller CAPE ratio and all kinds of other metrics, it looks like it's starting to win out.

And if you get $1 decline, well, then obviously, emerging markets have retro rockets on relative performance. It's interesting that with the dollar stable, EM has started to outperform, and gold is rising again, which is interesting. And so I think one of the things that might really start to fuel changes in relative value might be if the wealth tax concept actually starts to go truly mainstream. And I've got news for you. It sort of already is in the polls.
**GRANT WILLIAMS:** It is. Yeah, for sure.

**JEFF GUNDLACH:** I read today, a shocking 87% of Democrats are in favor of the wealth tax proposal by Elizabeth Warren. 87%.

**GRANT WILLIAMS:** Wow.

**JEFF GUNDLACH:** You don't get readings above 87% except for dislike of Congress.

**GRANT WILLIAMS:** Right.

**JEFF GUNDLACH:** That's about it. And so even more than 50% of Republicans are in favor of it. So with that kind of polling, it's pretty hard to see that that won't be part of some platform of success in 2020. And one would think is people would be getting out of all forms of easily-identifiable wealth, like computer blips and bank accounts and other things and trying something. I mean, maybe they'll bury gold in their backyard.

**GRANT WILLIAMS:** Yeah. Maybe.

**JEFF GUNDLACH:** Maybe they'll buy Mogok pigeon-blood red rubies, where you can put one in your shoe, and it's worth $10 million, and you can walk comfortably because the wealth concentration is just so high. So it would seem to me that those things would be early warning signs of the potential for this wealth tax sort of thing.

It's very fastening because the reason that there's an estate tax in America is because they got around the Constitution because it's a direct tax that they call an indirect tax so they don't have to apportion it. And the way they got away with it is they said, we are not taxing your estate. We're taxing your right to give money to your heirs.

Well, Elizabeth Warren's wealth tax is taxing your privilege to not give money away.

**GRANT WILLIAMS:** Right.

**JEFF GUNDLACH:** The money you don't give away is being taxed. So you'll be taxed on privilege of giving your and privilege of not giving it away, which kind of means you're just being taxed directly. So it'll be interesting to see how they try to square that logic.

**GRANT WILLIAMS:** Well, you touched on gold there, and I know it's something you've gone backwards and forwards over the years.

**JEFF GUNDLACH:** I turned bullish on gold at 1,196.

**GRANT WILLIAMS:** Yeah.
JEFF GUNDLACH: Last summer. And it was pretty close to the low. I was discouraged when it broke down from the high 1,200s. When it got down there, I became positive on it, and I thought the dollar was going down. And I think I recommend Barron’s GDX, also, which got off to a slow start, but it's catching up quickly. I think it’s up 10% now year-to-date, or since January 7th when I did that Barron's Roundtable.

So I'm very bullish on that. And it's also interesting to see silver performing well. Palladium is an all-time high. So yeah, I think that I've been really recommending that if you want ever to own gold, the time to do it was basically last summer. And it's up a fair amount from there, but not enough to worry about because if it’s really going to work as part of your portfolio, 1,400 is not a huge price relative to the range of the past 15 years.

GRANT WILLIAMS: When you look across all this, and we’ve touched on a lot of stuff here—politics and the dollar and bonds and equities— is there any one thing that keeps you up at night apart from this cold and the stomach flu?

JEFF GUNDLACH: I get asked that question a lot. It's kind of one of those standard questions to ask. Nothing really keeps me up at night. I don't really worry about stuff anymore. I accept things the way they are. And I think the reason people worry, I think, is that they are not acknowledging some certain dangers, and they feel it subconsciously. I know that there's dangers, but I'm aware of them, and I look right at them. And I think that's why I'm pretty good at managing money.

I think it's about looking for risks, finding them, and accepting that they're there, and trying to make them non-fatal. I'm really most worried about just the basic divide everywhere in the world—just the whole have, have not thing, which is ushering in fractured politics everywhere. And it's not going to end until it fully ends. We're not going to get the genie back in the bottle. We're not going back to Bush vs. Clinton.

GRANT WILLIAMS: No.

JEFF GUNDLACH: Right? It's going to end up with awareness of the non-sustainability of debt, particularly now in the United States, particularly if our dollar drops, particularly if the challenge of the dollar's reserve currency becomes increasingly real because our interest rates would be a lot higher if we were not world's global reserve currency.

GRANT WILLIAMS: Well, but that's something that is definitely a topic that is moving closer to front and center.

JEFF GUNDLACH: China's definitely moving in that direction.

GRANT WILLIAMS: Yeah, people kind of just dismiss it still. They say it's no chance.

JEFF GUNDLACH: It's just like the deficit. It's one of these things where it's just a given. If you say the dollar will not forever be the global reserve currency, people don't understand because it's been their entire life.
GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: I remember in ’08, before Lehman went bankrupt, I wrote a white paper begging people to get out of commercial paper money market funds. And I gave a speech, saying whatever you do, don’t own a commercial paper money market fund because it’s got all kinds of financial debt. It might be 30 days, but it doesn’t matter. It could all default. And people couldn’t hear me.

They would come up to me after speech and say, did I hear you right? You said money market funds can be risky? And I said, which one of those words did you not understand?

GRANT WILLIAMS: This is not a complicated theory.

JEFF GUNDLACH: Right. I was absolutely crystal-clear with my statement. I wasn’t oblique. And yet it’s so foreign that they can’t quite accept it. And so people need to listen with their mind, as well as their ears and not just repeat what they’re told, which– I’ve said this several times publicly– my biggest revelation in life was that people want to be told what to think because I don't. And I do the same thing every human being does. You assume everybody is like you when you’re young. You just know your own little world, and you don’t know that there’s many different ways of operating.

And then you start to realize, gee, by assuming that everybody wants to figure things out for themselves, I’m not getting anywhere.

GRANT WILLIAMS: Right.

JEFF GUNDLACH: Am I not explain it right? I’ll try harder. And a few more years go by, and I’m still not getting anywhere. Then the light bulb goes on– no, they want to be told what to think. So it’s very convenient to be told that deficits don’t matter, and you’ve been pretty much pounded into submission on that idea. But the math is the math, and it’s not complicated. It’s just arithmetic, and you get to the compounding curve where– I mean, if we pass legislation next year, maybe we could somehow reverse course. But we’re not going to. We’re going to go the other way.

GRANT WILLIAMS: Well, that kind of legislation is not going to get you any votes. Let’s face it.

JEFF GUNDLACH: It only gets you votes when the problem is out in plain sight and is hurting people right now.

GRANT WILLIAMS: Yeah.

JEFF GUNDLACH: And we’re still in mega-denial mode because we actually think that we can get richer by borrowing more. That’s the message from the Democratic Socialist. Don’t ask me how I’m going to pay for it. That’s not even important. You’re missing the real question– how are
we going to divvy up the massive prosperity? We're going to borrow our way to prosperity, which, of course, is nonsensical. Just think about that in your personal life.

**GRANT WILLIAMS:** But that's the problem.

**JEFF GUNDLACH:** The more credit cards you get, the more wealthy you are. Sure.

**GRANT WILLIAMS:** But MMT, Modern Monetary Theory, is gaining all kinds of traction. Wherever you look, it's suddenly become an incredibly hot topic, which we know it doesn't work. It can't work. You can't just spend your way into prosperity.

**JEFF GUNDLACH:** True. You can't drink yourself sober.

**GRANT WILLIAMS:** Right. But at a certain time in the cycle, which we seem to be at, it sounds great to a lot of people. And they want to be told what to think.

**JEFF GUNDLACH:** Extraordinary Popular Delusions and the Madness of Crowds.

**GRANT WILLIAMS:** Exactly right.

**JEFF GUNDLACH:** And it's amazing how it happens, and Bitcoin was an example of that, I think. And maybe we'll go all digital and all this down the line. Something like this will work, but Bitcoin was not going to a million. It was just ridiculous mania, and I think spending your way to prosperity is so blatantly idiotic, yet when you get groupthink going, and everybody starts to repeat what they're told, this is what happens.

**GRANT WILLIAMS:** I mean, it's a perfect example of what you were just talking about. People want to be told what to think, and if the people on the TV tell them this is a great idea, and it might just work, they're going to get behind it because it sounds fantastic.

**JEFF GUNDLACH:** Particularly if they hear it enough times from enough people, and people nod their head in a north-south direction when you say it.

**GRANT WILLIAMS:** So just one more thing before we finish because I know we're stealing a lot of your time. But you called the Trump election perfectly. You talked recently about the next election perhaps being decided by Congress.

**JEFF GUNDLACH:** It could be because if you get four funded parties, or even three, it's possible that nobody gets the majority of the electorate. And what a show that would be.

**GRANT WILLIAMS:** Can you imagine?

**JEFF GUNDLACH:** Because against this background of divisiveness, you would have one house choosing the president, and the other chamber choosing the vice president. And one is controlled by the Democrats, and the other is controlled by Republicans. So you could get this incredible
situation where the diametrically opposing views that are number one and number two. And you wonder if there wouldn't be-- God forbid-- somebody that wants number two to turn into number one through some diabolical means.

GRANT WILLIAMS: I presume that's not your base case scenario. When you look forward-- I mean, I know we're way out-- but when you look forward to 2020, as it stands now, how do you gain that when you're trying to think through what might happen?

JEFF GUNDLACH: It's too early. I think things-- it's really early, quite frankly.

GRANT WILLIAMS: But your record has been so good at these things. I just want to get a sneak peak.

JEFF GUNDLACH: It's amazing. It feels like this campaign's been going on for a while now.

GRANT WILLIAMS: Yeah, doesn't it?

JEFF GUNDLACH: Right? And it's February of 2019, right? So we're a year and a half plus away. So a lot of things are going to change. The economy is going to change. That's going to matter. I think we'll be able to get real clarity about a year from now, maybe a little less, what's going to happen. But I'm virtually positive you're going to get a Socialist running. The socialist ideas poll very well, and Bernie Sanders raised $6 million in 24 hours, and he's not even that strong anymore.

So there's a lot of force there. I think Bloomberg could well run if you get a Socialist. I think that you could have this Howard Schultz character run. I don't think so. He seemed to not really understand what he signed up for. I think he lasted about 23 seconds before the heckler came in, and I haven't really heard from him since.

GRANT WILLIAMS: No, he's gone very quiet.

JEFF GUNDLACH: So I don't know about that one. But you'll get one of these people, and maybe Joe Biden. I mean, which would shock me that he would think he would have a chance. Because nobody who's old school is going to win.

GRANT WILLIAMS: No.

JEFF GUNDLACH: No. All I know is it's going to be Trump again or some Socialist, or we're in a recession, and I guess we're all Socialist then.

GRANT WILLIAMS: Yeah. That's a great way to finish here. Thank you so much for the time and for getting out of your sick bed to come and do this. I really appreciate it.

JEFF GUNDLACH: Thanks, Grant. Good to see you again.
GRANT WILLIAMS: Well, I told you we had a lot of ground to cover in a limited amount of time, and we got plenty in there. It's interesting to hear Jeff's thoughts on that corporate bond market, which I think is potentially ground zero. And clearly, what comes across when you talk to Jeff is just how important this next recession is going to be. A lot to think about. Hopefully you enjoyed that conversation as much as I did.