Transcript: The Startling Consequences of Monetary Policy

Featuring: Stephanie Pomboy

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Synopsis: In her long-anticipated return to Real Vision, Stephanie Pomboy, founder and president of Macro Mavens, sits down with Grant Williams to discuss her global outlook after the Fed’s recent course-reversal. Pomboy and Williams take a deep dive into the significance of the gaps between various economic indicators, and discuss the implications for capital markets. They also touch on associated topics such as China, cryptocurrencies, and gold. Filmed on April 18, 2019 in New York.

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STEPHANIE POMBOY: If this is the underfunding situation now, when we're arguably at the peak of economic and financial activity, what is it going to look like when, heaven forbid, the market actually sustains a downturn? It's remarkable, the complacency around the corporate sector's ability to service all of this debt. It's going to take people a while to wrap their heads around the size, the sheer magnitude, of money printing that's going to be required.

GRANT WILLIAMS: Yeah.

I'm about to have a long overdue conversation with my dear friend, Stephanie Pomboy. I've been trying to get her to come back on Real Vision for a long, long time, and she has resisted for reasons best known to herself. But there's a whole bunch of stuff we want to talk about. I'm going to ask her why she resisted, and she's going to blame me. But don't believe her.

The Fed, corporate bond markets, junk bonds, equities, there's so much going on. And Steph does some of the best work out there on all of it, much to her chagrin. She's going to hate me saying that. So let's go and sit and talk to Steph.

Well, well, well. Fancy seeing you here.

STEPHANIE POMBOY: Here we are.

GRANT WILLIAMS: Here we are again. Now this has taken a long, long time. Personally, I blame your almost pathologically misplaced modesty. You're probably going to blame me.

STEPHANIE POMBOY: No.

GRANT WILLIAMS: But--

STEPHANIE POMBOY: There's no blame whatsoever.

GRANT WILLIAMS: But we're here. We're here, finally.

STEPHANIE POMBOY: We made it.

GRANT WILLIAMS: Steph Pomboy, welcome back to Real Vision.

STEPHANIE POMBOY: Pleasure to be here.

GRANT WILLIAMS: It's been far too long. So, so much to talk about. And as you and I tend to do we get together, we have to start with the Fed, right? It seems the logical place to start because from the mails or the Fed, all sorts of things tumble out. So I've got to ask you, what do you make of Powell's flip-flop? How important is it? Or are we wasting our time worrying about it?

STEPHANIE POMBOY: It's amazing to me the speed and magnitude of the turnaround. You know, at the end of October, they were debating whether they were going to raise rates two times or
three times and everything was fantastic. And in the span of six weeks, now they're talking about not just- not raising rates but pausing the balance sheet, unwind, et cetera. And what's been stunning to me isn't even that the Fed reversed course but the way the markets interpreted that.

It's going into it when they were talking about raising rates two or three times in 2019, everyone was saying, hey, this economy is so strong we can handle the higher rates. You know, bring it on Fed. And then when they flipped in, you know, whiplash-inducing fashion, the narrative was, oh, this is great because now we're going to continue to get liquidity.

**GRANT WILLIAMS:** Liquidity.

**STEPHANIE POMBOY:** So there was no reflection on why they had to abruptly reverse course and what that says about the fundamental state of the US economy, and more broadly- from our long discussions about the Fed- how they can ever extricate themselves from this box that they've neatly drawn around themselves, where they can't ever raise rates. We got 10 year Treasury yields just above 3%. And you can feel the economy is starting to shake like an old car on the highway.

**GRANT WILLIAMS:** But, I mean, I think that's exactly it. They've built this trap around themselves. I remember putting a picture a couple of years ago of the central bank governors- Bernanke was in the chair at the time- in a corner with a painted floor where the last bit of floor of the painting was right in front of them, and that seems to be what they've done. And yet, for now, they've gotten away with it, which I'm just- I'm just baffled by it.

**STEPHANIE POMBOY:** It is baffling. You know, they've demonstrated a perfect record and getting it wrong every time. And yet the markets continue to adapt to them with some great gift of insight and ability to navigate us through any kind of economic or financial shoal, all evidence to the contrary.

**GRANT WILLIAMS:** Right. But is it that? Is the market thinking that? Or is the market- I think liquidity cheering thing is just that. It's, OK, almost as if they kind of expected this to happen. We're going to keep going. There's no way they're going to get these four rate hikes away in 2019. So we'll kind of keep buying. We had that wobble in December. And as soon as they about turned, it was like, we knew this would happen.

**STEPHANIE POMBOY:** Right. The status quo is great as far as Wall Street is concerned. What happens in the underlying economy is almost irrelevant at this point, as long as you keep the liquidity pumping and there's cheap credit to buy back shares, what's to stop this game from going?

**GRANT WILLIAMS:** Well, let's talk about those buybacks because that's such a massive component of what's going on. I don't have the numbers to hand, but the percentage of the advances that are down to share buybacks is, I mean, so staggeringly beyond anything you could have imagined. But, again, it's hard to see how people aren't looking at this and going, this is a terrible thing.
STEPHANIE POMBOY: Well, the numbers are staggering. And it really— the corporate sector, I guess, is the largest purchaser of stocks in the post-crisis period. I was looking at– we have seen this ballooning in corporate debt in this whole recovery phase. And I was looking at that relative to buybacks because we all know intuitively that buybacks have been debt financed primarily. And the numbers are actually even more remarkable.

So according to the Federal Reserve's flow of funds numbers, there was $3.3 trillion increase in corporate debt.

GRANT WILLIAMS: Right.

STEPHANIE POMBOY: Buybacks over that same stretch were $3.4 trillion. So [LAUGHS] I mean, the numbers are just truly staggering. And one window that I think is really important into the role that buybacks have played is the difference between S&P earnings numbers, which are heavily flattered by these buybacks because they're per share earnings numbers, and the profit numbers reported by the government as part of their GDP report. And this is super wonky. Only nerdy economists like me would look at this.

But it's been amazing to watch the gap between those two measures expand. We had this huge obviously 24% increase in S&P earnings last year, and the rule to which that was influenced— even notwithstanding the tax cut by the record amount of buybacks— is so under appreciated. And it's had me worried that as we come into 2019 in that tax cut lift phase, people might start to realize, hey, the underlying fundamentals here aren't really that strong because while the S&P was reporting earnings of 24%, the broader government profit numbers were only up 7%.

That's a massive gap. And you've only seen gaps like that a handful of times in the last 50 years. And every time you've seen a gap where the S&P ran ahead of the government numbers, it's been ultimately reversed.

GRANT WILLIAMS: It's catch down or catch up. Yeah.

STEPHANIE POMBOY: The BEA, the government, has had the numbers, right? And S&P ends up moving back into alignment with it which will be really painful if it happens this time.

GRANT WILLIAMS: Well, and also the estimates for earnings growth, I mean, are plummeting, right? I mean, it was a great chart you put in macromavens which I shamelessly stole. And if I--

STEPHANIE POMBOY: Steal away.

GRANT WILLIAMS: I would have tried to pass it off as mine, but everyone would have known that it was not me. But, I mean, it’s– I mean, these things are falling off a cliff. And yet, and yet, and yet--

STEPHANIE POMBOY: Right. The chart is, you've got the earnings revisions going down and the stock market just keep going up. And I guess part of it is that we're really kitchen sinking, if that's
a phrase, the weakness into the first quarter. And if you look at that trend in estimates going out, they see earnings picking up. And then ultimately going back to double digits in 2020. So this is just temporary. You know, it’s--

GRANT WILLIAMS: Transitory. Yeah.

STEPHANIE POMBOY: Right. It's seasonal. It's the one time effect of the tax cut. So nothing to see here.

GRANT WILLIAMS: But, I mean, everywhere we look-- and the work you do and the work that your brother Eric does, these charts with these alligator jaws, I mean, it's almost hard to find one that doesn't look that way at the moment. And, look, we've this before. And you and I worry. I mean, you and I when we get together, we worry. That's what we do. And for many reasons, that's been the wrong thing to do. You should just lay back and let it all go over you, right?

But at some point, you have to do the worrying because at some point, it will matter to. When you talk to your clients--

STEPHANIE POMBOY: When is that day going to be though? [LAUGHS]

GRANT WILLIAMS: Yeah. Right? I mean, I don't know. I really don't know. And how bad is it going to be by the time we get to it? But when you talk to your clients, what's the sense you get of the way people approach this? Are they genuinely thinking everything's great and forget all this stuff? Or are they thinking we're going to ride this Fed wave, and then we're going to jump off right before it crashes onto the shore?

STEPHANIE POMBOY: Yeah, no. I think there's much more complacency. I mean, I think there's an acknowledgment that there are some fundamental and structural issues, the debt, you know, the funding issues around pensions. People acknowledge that these are big headwinds for the economy long-term. But they don't see any kind of cataclysmic event.

They don't- I think the path of least resistance for the average investor is this kind of muddle through scenario where maybe the economy slows a little bit. But that's fine because then the Fed doesn't have to raise rates. So it's kind of Goldilocks. And then not everything moves in a straight line. We'll have little slowdowns here and there. And it's really we'll be able to navigate our way through this. You know, how we'll be able to do that is unclear.

But the burden of proof is on folks like you and me because so far it has muddled through and we have been able to move forward despite what we worry about as major, insurmountable obstacles that will have to be addressed at some point.

GRANT WILLIAMS: Well, you mentioned pensions there. And that's something you've done a lot of work on over the last few years. And you put a chart up-- I forget who it was, but the underfunding of the pension system. And this was two or three years ago maybe you put this thing up there. And when I looked at it the time, I was like, holy cow, this is really dangerous.
STEPHANIE POMBOY: Right.

GRANT WILLIAMS: And I keep going back to the chart and it doesn't get any better.

STEPHANIE POMBOY: It's probably doubled since then.

GRANT WILLIAMS: Right? So just talk a little bit about that and what you see there. Because it's-- I mean, it's really, really dangerous.

STEPHANIE POMBOY: Yeah. Well, I think this is obviously there are a lot of unintended consequences of monetary policy. And right now I think this is the most blaring and dangerous side effect of these repressive rate regimes that we've had here and around the world for the last almost decade. And to be fair, I think when central bankers got into this thing where they pushed rates down and decided we're going to hold rates down at absurdly low levels, they never imagined they'd have to hold there as long as they ended up doing.

So they probably thought, we'll hold rates down to the point where we spur animal spirits again, and then we'll be able to lift things up, and we'll have that handoff between reliance on debt to drive the economy to finally getting to income growth. Households will be able to rather than borrowing to sustain consumption will get wage growth and everything will be able to move on its own.

Of course, we went through a long, long, long period where that was not-- they couldn't make that handoff. So they had to hold rates incredibly low. And what happened is there is essentially they silently bankrupted the entire pension system throughout the US.

GRANT WILLIAMS: Right. It sounds dramatic, but that's exactly right.

STEPHANIE POMBOY: Yeah. No, it absolutely is true. I mean, when we started this, I think we were at $3 trillion in total underfunding public and private. And today, we're just a hair under $7 trillion. That's 33% of GDP today. And the scariest thing to me about that is that, again, this is after a decade long, almost-- decade long economic expansion and the longest bull run in stock in history. So if this is the underfunding situation now, when we're arguably at the peak of economic and financial activity, what is it going to look like when, heaven forbid, the market actually sustains a downturn or we go into a recession?

You know, the answer, if you want to look back to 2000 when we had the dot.com bust and then the 2008 episode is on average of those two cycles the funding deficit doubled. So we would go from seven to $14 trillion which, if GDP is where it is today, so you to 2/3 of the GDP.


STEPHANIE POMBOY: I mean, at what point do those numbers actually start to matter? I would have thought at 33% just--
GRANT WILLIAMS: So you have three years ago. Right.

STEPHANIE POMBOY: Right. That would have been enough of a wake up call. And it's again when you start talking about pensions, it's something people see as a long-term problem that we have the luxury of time to solve. But that's really not true because we have an aging population and we have more and more people every day who are coming to collect on these pensions that aren't funded. So the problem is really coming into focus now.

I mean, we had a brief example with the Dallas police pension--

GRANT WILLIAMS: Yeah. But that was, what? Three years ago? Four years ago? Yeah.

STEPHANIE POMBOY: At least.

GRANT WILLIAMS: Yeah.

STEPHANIE POMBOY: And it was really, I think, an interesting window into what we could see more broadly. But a terrifying window, because basically what happened there was that word got out that the Dallas police pension was woefully underfunded, and it started a run on the pension where people who were nearing retirement said, well, let's get back mover advantage. Whatever money is there, I want to collect mine. And it didn't take long before they actually had to close the doors and say, look, we're not allowing this anymore.

So you could see a situation where those kind of examples could happen in Chicago, New Jersey-.

GRANT WILLIAMS: New Jersey. Yeah.

STEPHANIE POMBOY: There are so many places where you have really problematic pension issues, and they're not going to be resolved this long as the Fed keeps these rates artificially low. But, on the other hand, raising rates is also a problem.

GRANT WILLIAMS: Exactly. Exactly right. I mean, we didn't have– this fascinates me because I remember when I moved to Japan in 1989, they were talking when I got there that in 2015 the Japanese population will begin to shrink. And 2015 was a lifetime away, right? And so it was such a big concept and such a big thing to be worried about. It's like they're figure it out. They'll figure it out. And, of course, 2015 comes. The population starts declining. And people are going, how the hell do we solve this problem?

And this is– when I look at this pension situation, I see that exact same thing happening. It's such a big problem. We're talking possibly $14 trillion in unfunded liabilities. How do you even think about a solution to that until it stands up, slaps you around the face, and you have to deal with it? So does this almost have to fall over if it's not going to be done? And can people just go, it's not a problem because they'll fix it when they have to?
STEPHANIE POMBOY: Well, the pushback I get on this one is interesting to me because most people will say, they'll just renegotiate the pensions. It's obvious. We can't possibly fulfill the obligations as outlined right now, as promised now. So they'll just renegotiate, as some companies have done. The problem is, while that very well may end up being the solution, it simply passes the saving burden from the company or the state or the city to the person who was trying to retire.

GRANT WILLIAMS: Right.

STEPHANIE POMBOY: So if you haven't set aside the money because you think your city, or your state, or whatever pension is going to be there, and all of a sudden they say, look, Joe Blow, we're going to pay you half what you thought, now either you have to continue to work. No mystery why the labor force participation rate of people 65 and over is the highest since the 1960s right now, or you're going to have to cut your spending and downsize your lifestyle, etcetera, which has-- all of those things have a real economic impact.

So we're either going to have to address the pension thing in some kind of cataclysmic crisis way, or we're going to have this steady economic drag exerted by people who are finding themselves disenfranchised, who now have to find other ways to support themselves. And I do think ultimately it ends up bringing up this whole conversation-- which is really terrifying to me-- about MMT.

And it's just hard to imagine that we could go through a downturn and a pension crisis where people stand by and say, it's OK not to bailout would-be retirees. It's great that you bailed out the banks. We don't really care whether-- you know, the average worker. That's just not going to fly. So it's pretty easy to see where this theory starts to gain some real traction.

GRANT WILLIAMS: Sure.

STEPHANIE POMBOY: And, of course, what's the downside? You just print the money. You pay the obligations. And everyone's happy, right? [LAUGHS]

GRANT WILLIAMS: Well, I mean, look, this whole thing, you know, it's interesting because obviously it's the boomer generation that is going to be the trigger for this because they're the guys out all the money. Until the millennials, they were the biggest generation that the world had ever seen. But the boomers are also the ones in power at the moment. We have this situation where you have the millennials-- you know, I spoke with Neil Howe about this recently.

He said, the Gen X generation basically skipped politics, that they basically didn't take an interest in it. So you have this tug of war for power in politics with AOC and these young Democrats coming through with all these ideas, which was to you and I fanciful and our decades of experiences tell us that it won't work, they don't know any better. Their entire lives, they've been witness to the state-- we'll use that pejorative term-- but the state funding everything, and printing money, and everything's been fine.

So you can totally see how they think this is the solution.
STEPHANIE POMBOY: Right.

GRANT WILLIAMS: But I just wonder how that resolves itself, not so much from the money point of view, but from this battle between the guys who have power and who are essentially voting on whether to pay themselves an annuity, and the people coming through to say, no, grandpa, that's not going to fly.

STEPHANIE POMBOY: Right.

GRANT WILLIAMS: How do you see that battle playing out?

STEPHANIE POMBOY: Wow. I mean, it's terrifying to me to watch it because of-- you're talking about these fanciful notions are really gaining traction in a way that-- and have you mentioned MMT as a serious proposal a year ago, I wouldn't even--

GRANT WILLIAMS: Right. I thought it was a cage match.

STEPHANIE POMBOY: I mean, give me a break.

GRANT WILLIAMS: I had no idea.

STEPHANIE POMBOY: Why are we even wasting the breath talking about this? Because there's no chance anyone would do something so asinine. [LAUGHS] Right?

GRANT WILLIAMS: Except maybe Japan.

STEPHANIE POMBOY: Ah, right. Well, but so that's interesting because that's always held up as the example. See? It can work. And there's-- it's the perfect crime. You know, no one loses. It's, what could go wrong?

Well, there happen to be some pretty important differences between the US economy in Japan. And the most obvious to me is that they're internally financed. They don't rely on the rest of the world to finance themselves. So, as we sit here running dollar bills off the printing press, where China, Japan, and Russia and all these people are going to say, oh, yeah. That's good by us. No problem. You can completely inflate away all the obligations that you owe us.

So it's very difficult for me to wrap my head around it and see how it plays out. But I will confess to being scared at how much traction it's gaining and that I really need to start to figure out how this could possibly happen. Because, you know, talking about how this is a long-term problem that we might have the luxury of not addressing right away, I think the catalyst for this whole pension crisis becoming immediate is going to be the bursting of the corporate debt bubble. Because, obviously, you know if you can't make 8% in a 0% risk-free world, you've got to load up on all of the most toxic claims you can out there.
So we know that the pensions have massive exposure to this corporate debt bubble. And it wouldn't take much of an increase in rates to really wreck havoc in that corporate market. I mean, I think there's an appreciation now about the increasingly low quality of corporate debt, even in the investment grade sphere where half of the investment grade debt now is one-

GRANT WILLIAMS: One run. Yeah.

STEPHANIE POMBOY: Right. I like to call it pre-junk project.

GRANT WILLIAMS: Pre-junk. [LAUGHS]

STEPHANIE POMBOY: [LAUGHS] And then, of course, you know, you've got another $1.2 trillion in actual junk, and then you've got $1.2 trillion in levered loans with no covenants. So you've got about $5 trillion in corporate debt of the $9.5 trillion out there. So more than half of it that's really vulnerable to any increase in rates.

And we're going to really find out who can withstand an increase in rates because we've got almost $800 billion of that debt rolling-

GRANT WILLIAMS: Rolling. Yeah.

STEPHANIE POMBOY: --this year and another $900 billion next year. So there's no relief in sight. You know, it's not like, oh, if they could just make it to the end of this year, everything is all clear.

GRANT WILLIAMS: Yeah. We're OK. We're home free.

STEPHANIE POMBOY: So this is really going to be an issue. I think moving forward, it will be interesting to see how it unfolds over the course of the year. But it will certainly reveal the degree to which the averages that everyone looks at in terms of the health of the corporate sector, in terms of corporate profits, really don't tell you anything.

It's so much like the consumer, where you've got the top, that have all the assets and none of the debt, and then you've got the bottom, that obviously we're in the reverse situation. And, frankly, I think the numbers in the corporate sector are even more dramatic than they are in the consumer side.

I was just looking at with the fourth quarter numbers for S&P earnings, the top 20% of companies accounted for 75% of the earnings. That's in the S&P 500. Those are the largest 500 companies out there. If you looked at those government profit numbers that I like to look at, it's-- the skew is even more dramatic, obviously. And then when you look at cash positions, it's even more profound. The top 20% have 80% of the cash. In fact, if you add up the cash of the top three companies in the S&P, the biggest cash holders, they have more cash than the bottom 450 companies.

GRANT WILLIAMS: Is that right?
STEPHANIE POMBOY: So just three companies. So, I mean, it's remarkable the complacency around the corporate sector, its ability to service all of this debt. Because, really, outside those top 20%, there is no ability to service any increase in-- there is no ability to withstand any increase in debt service. And who knows if they can even handle what they've got already, depending on what happens with economic activity and where that profit growth number actually goes this year.

GRANT WILLIAMS: Did the Fed start MacroMavens or something? and they're like, oh, my god.

STEPHANIE POMBOY: [LAUGHS]

GRANT WILLIAMS: Because when you talk about all this stuff, and then you ask the question after doing so, why did the Fed flip? Its suddenly starts to make an awful lot of sense. If they're looking at this stuff and seeing the same things you are, because they can't withstand higher rates. And then, to me, it becomes an exercise in, OK, how do we sell this? How do we sell the flip-flop?

What really surprised me-- and you and I spoke about this before-- is we knew Jay Powell was a real guy. He had a real job. He understood finance. He understood the market. And based on his comments at previous FOMC meetings when he was just one of the voting members, he totally got not only what the Fed was doing but the market's response to it, and what would happen if the Fed reversed. So we had to kind of wait and see what he did to understand, OK, is this whole charade a charade? They know it's a charade, and they're just saying whatever they want to keep the whole thing together? Or are they really dumb and clueless?

And it seems as though it's the former. It seems as if they know they've got to try and just keep this together any way they can.

STEPHANIE POMBOY: I mean, I don't know. I almost fall into the latter because the-- if they had a PR person who was managing their image, wow. I mean, he looks like he got his Twitter feed and said, whoops, I guess I better reverse cards. [LAUGHS] So it doesn't really give you a lot of confidence that the Fed has any idea what's going on. And it-

GRANT WILLIAMS: So you don't think they're looking down the pike at this stuff and saying, we're speeding up into the rocks here. We need to try and slow the boat down?

STEPHANIE POMBOY: I think what happened is very similar to what happened to Alan Greenspan in 1987 in that he had just become chair of the Federal Reserve in late 1986, and he started raising rates. And, of course, you got to October '87 and had this spectacular crash. And that, basically, from that day forward transformed his posture as Fed Chairman in a way that we still live with today-- the Greenspan legacy and the Greenspan put was established.

So that experience of the markets basically schooling him, you're too tight, you're too tight, was one that was very impactful on monetary policy going forward. And I think you could argue today that the impact that financial markets have on the economy is so much greater than it was in 1987. So you could see where the Fed-- you know, they like to say that the stock market and
financial conditions are just one of a variety of indicators they look at. But it's increasingly clear that-

**GRANT WILLIAMS:** Name the other ones. Go on. I bet you can't. Yeah.

**STEPHANIE POMBOY:** I mean, you can pretty much see that they all sit there in front of their Bloomberg terminal and they look at what's happening, and that's how they basically develop their outlook for policy. But with the other thing that kind of makes me feel like they're not looking down the pike and saying, ooh, we've got to make sure we steer away from this possible problem is that-- they've talked about this a bunch. But Powell was specifically asked-- the very last question in the last press conference was, are you worried that by reversing your planned rate hikes that you might be feeding this bubble in corporate debt? Which I thought was a refreshingly useful 'cause you usually sat there for an hour and you're like, I can't believe that this is-

**GRANT WILLIAMS:** Yeah.

**STEPHANIE POMBOY:** But-- so his answer to that was really telling because he basically said, you know, we have called out the levered loan market as an area that we're watching and we're concerned about. However, we don't think that the corporate bond market-- levered loans or the corporate bond market more broadly posed a threat to the economy. We think that, to the extent there is a problem there, it might amplify any existing problem in the economy. But it's not going to be the catalyst for it.

And then he made a comment that was eerily reminiscent of Bernanke's isolated and contained description of the subprime market in May of 2007-

**GRANT WILLIAMS:** '06, or '07, I think. Yeah.

**STEPHANIE POMBOY:** I think, in basically saying that there was no spillover risk to the financial sector either. So I think the Fed-- and, you know, again, this is Jay Powell, who seems like a straight shooter. Who is fairly frank, and I think is a dispassionate analyst of the data. That's his takeaway. So I have to think he genuinely believes that to be the case. And that's kind of scary because I think it couldn't be farther from the truth.

**GRANT WILLIAMS:** Well, the trouble is, I'm in the other camp to you. But the outcome of it if either of us is right is the same.

**STEPHANIE POMBOY:** Right.

**GRANT WILLIAMS:** And that's the problem. We've had Janet Yellen going from saying, I don't think there will be another crisis and my lifetime, to saying, look out. The delivered loan market is a real problem. We've had Bernanke saying similar soothing things when he's in the chair, and now he's a lot more cavalier with some of the things he's worried about.
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Jay Powell seems to almost be captive to the same thing. And those comments about the corporate bond market just strike me as you know, I was surprising he didn't have his fingers crossed across his chest just to signify that he was a hostage to someone. Because when you read things like Powell saying that the fact that we can't generate enough inflation is one of the biggest problems of our times, I just want to smash my head against the wall.

You know, I mean, how do you tell a working man somewhere in the Midwest that we can't make your cost of living go up fast enough?

STEPHANIE POMBOY: Right. And your real wages go down a lot.

GRANT WILLIAMS: Right. But all of this it seems stems from the same thing, which is, don't let the wheels come off at any point and under any circumstances. How far does that go back? How far do we have to go back before it was OK to have a recession, and then fix it maybe instead of trying to prevent it?

STEPHANIE POMBOY: I mean, I think we are so far away from that, which is amazing to me. One thing I've been noodling about since the Fed basically dropped its pants at the end of last year and said, OK, you know, we're just-- we're not going to have any pretense of monetary integrity here whatsoever. If the stock market has even the smallest blip or the economy does even a temporary thing, we're going to make sure that we rush in with accommodation.

That has me thinking about-- and maybe it's kind of a too cute-- but I feel like it's now the market's job to impose the order that monetary policy used to do. And I'm thinking specifically about the return of the bond vigilantes from way back in the day, where if you know-- let's say this morning we got a much stronger retail sales number than we have seen. And I expect in the near term we'll see a lot more upside surprises just because we've seen so--

GRANT WILLIAMS: So many.

STEPHANIE POMBOY: --so many, we just-- and a lot of that was due to the fourth quarter meltdown that really depressed activity and CEO optimism, blah blah blah. And, obviously, that's reversed with a vengeance. So you'd think you'd start to see some follow through. So even just from a dead cat bounce basis, you'd expect we'll see some stronger numbers. And it's going to be fascinating to see how this works out in the markets. Because now we're going to see some stronger headline numbers at a time when the Fed has basically said, eh, we'll just let inflation run hotter. We'll let the economy run hotter. We're not going to-- we are not going to dare touch the situation.

So at what point does that start to get people nervous that, OK, maybe we really are going to have inflation? Or maybe this really is it-- maybe we are a little too lax? And you bring back these bond vigilantes. If that happens, obviously, given what we just talked about on the corporate debt side, that would not probably go over too big for stocks and ultimately economy and--

GRANT WILLIAMS: Right. But that's it.
STEPHANIE POMBOY: --pensions and-- [LAUGHS]

GRANT WILLIAMS: But that’s it, right? To your point earlier, we’ve reached this point where it used to be that if the economy was strong, the stock market did well. And now the transmission mechanism is complete-- it’s completely reversed. If the stock market does well, the economy seems to follow it. And if that has to be an illusion, right? It doesn’t-- it just doesn’t work that way. The stock market can’t generate economic activity.

STEPHANIE POMBOY: But it can destroy it--

GRANT WILLIAMS: Yeah.

STEPHANIE POMBOY: --pretty quickly.

GRANT WILLIAMS: Really quickly. Really quickly. And so when you look across this landscape-- which you and I worry about all the stuff and we are in the minority-- but are there any bright spots where you look across and you think, OK, look, there’s some good stuff going on here, or there’s a little bit of value here, where are you seeing-- I know last year you kind of saw it in Asia. Do you see any bright spots? Please, give me one. [LAUGHS] Please, just one.

STEPHANIE POMBOY: [LAUGHS] Oh, I mean, Treasury yields. I mean, obviously, we’ll have more volatility I think. But what we’ve learned is 3% is pretty much the absolute ceiling. So you have a great opportunity there to just trade that channel. As you get toward 3, you sell them. And as you get toward 3, you buy them. And as you get to 1 and 1/2, you sell. So there are some opportunities there, I think.

And I do still think that China-- with reference to my views on Asia-- continues to be underestimated. And it’s amazing to me that there was all this consternation about their reliance on exports and how they really need to develop a self-sustaining internal economy. And they’re doing that, which, by definition, will entail taking some hits in the transition. And yet the moment their economy starts to slow a little bit as their engineering this transition, people get hysterical that it’s, oh, my god, China, they’re going to cease to exist. They’re going to disappear from the face of the planet.

Meanwhile, they’re focused on this very long-term path. And their-- Xi doesn’t have to worry about being re-elected in two years.

GRANT WILLIAMS: That’s true.

STEPHANIE POMBOY: So he can take that long-term perspective and take some pain in the near-term to get where he wants to be. So I still think China is underestimated. I still like it. Obviously, there’s plenty of volatility there, if you want to get your blood pressure going.

But I– ultimately where this whole conversation leads me is to the outlook for the dollar. And, to me, that outlook is increasingly grim, I guess. Because whether it’s just more QE or MMT, we’re
talking about a situation that's going to require a substantial amount of money printing that's not going to be good for the value of the dollar.

And I think that's probably best expressed by being long in gold just because, presumably, as we get into this situation, all of our developed economy peers that have all the same problems we do- massive debt, terrible demographics, woefully underfunded pensions-- they'll all be doing the same thing. So it's going to be an ugly contest, like it has been between whose currency is worse one day or the other.

And rather than trying to play that game, I just think it's easiest to own gold which is the ultimate bet against all of those pieces of paper.

**GRANT WILLIAMS:** Well, we had to end up with the dollar at some point, right? Because it does-- everything seems to key off it. And, again, I'm amazed at the divergence of views in this because no one seems to think the dollar will muddle through. People either think that it's the beginning of the end and this de-dollarization trend is not only real, but it's picking up steam as we go. And then the other side-- and I give great credence to both arguments. I'm in your camp for full disclosure. But I understand the bull case that we're going to see this melt up. Everybody needs dollars and there's going to be a massive rush for dollars.

And there'll be a massive rush of dollars. And there'll be a massive rush for Treasuries when finally any kind of unraveling is allowed to take place, or if the bond vigilantes are responsible, is forced upon the market.

**STEPHANIE POMBOY:** Yeah. Well, and I don't disagree with the idea that you have-- an interim melt up before the complete collapse. Because it's going to take people a while to wrap their heads around the size-- the sheer magnitude-- of money printing that's going to be required. You know, I just keep coming back to that $7 trillion pension deficit. I mean, even if it goes to $10 rather than $14, we're still-- what's the Fed's balance sheet? It's just under $4 trillion. I mean, it's just enormous. And I just-- I don't see how there's any other way around it really.

**GRANT WILLIAMS:** Well, I mean, organic 3% growth.

**STEPHANIE POMBOY:** Right.

**GRANT WILLIAMS:** Right? But that's not going to appear anytime soon it seems.

**STEPHANIE POMBOY:** No. I mean, and you have to do more growth than that in the near-term because, again, we're kind of-- the fuse has been lit on this pension thing because we do have a rapidly aging population. So it's not as though we can just have a decade of 3% growth and grow our way out of it because these claims are due momentarily.

**GRANT WILLIAMS:** A year ago. Yeah. Exactly.

**STEPHANIE POMBOY:** [LAUGHS]
**GRANT WILLIAMS:** But what about— I mean, you've talked about a possible solution to that being retirees cut their expenditure in half. So let's get on to the consumer because this is something you've done some fantastic work on. You spend a lot of time focusing on it. What's the state of the consumer and how big a risk is he or she to this whole house of cards?

**STEPHANIE POMBOY:** Well, ultimately, I guess it all blows back to the consumer in terms of the pension issue and the impact that a meltdown in the financial markets would have on the economy. But right now when I look at the economy and try to assess where the weaknesses are, it's the corporate sector that I really worry about. I mean, I think, obviously, low end households are still struggling. There's clearly an issue in the consumer sphere that hasn't gone away.

But in terms of the real drama and the biggest shift, I think, from where we are right now, it would come from the corporate sector. That said, again, if you have a major correction in financial assets, and these pensions end up having to be renegotiated, you're talking about ultimately a massive increase in the federal deficit because those people who have to cut their spending in half aren't going to— a lot of those people can't afford to cut their spending in half. They're already of spending every dollar they have just to maintain an existence.

So they're going to place huge demands on all of the safety nets and the government is going to have to greatly expand those supports. So whether those pensions are renegotiated or not, it's all going to end up blowing back to the federal deficit I think and to state and local finances, as well. And, I guess, more broadly about the consumer, I just think it's, again, a situation where we've seen some increase in wage growth. Obviously, the employment numbers look a lot better. Although the unemployment rate isn't telling you the full story in terms of labor force participation, which is still incredibly low. So there is I think a lot more slack out there than popularly perceived.

But, again, I don't really worry that the consumer is the problem. I don't worry about them the way I did when we were having the housing bubble everyone was levered up to their eyeballs and they were taking out a second home loans so that they could go on vacation and whatnot. That isn't the problem today. But that's not to say that you won't see a real good hit to consumers when push comes to shove through this blowback on the pension side.

**GRANT WILLIAMS:** I mean the data suggests that HELOCs are back. Only people are actually now taking money out of their houses not to go on holiday and buy a boat, but to pay for college tuition, and health care, and the cost of living.

**STEPHANIE POMBOY:** Absolutely. Well, and it does speak to those distressed consumers at the low end who are really having to do extreme things like that to make ends meet. And there's no question that the average numbers, just as is the case on the corporate side, aren't telling you the full picture about the skew between the haves and the have-nots. Because, obviously, you've got the high end doing just great. And it's masking a lot of this weakness.

But I do think that the consumer is in better shape than they were in 2007, and that they're in better shape than they were even, let's say, three or four years ago. I mean, I do think that
recovery has started to generate real job growth, and wage growth, which has been helpful. It's not enough.

And you look at these numbers on who can—how many households actually have $400 in saving if they got into an emergency situation. And those kind of statistics are really terrifying and come back to that whole broader question about how we're saving for retirement. But I guess in terms of trying to say something nice and positive, I do think that the tax cuts, and maybe more importantly the cuts to the regulation, have been helpful in terms of really promoting economic activity here. And so I'm grateful that we're going into this situation that I am so terrified about with how vulnerable we are to any meltdown in the financial markets by that in there.

You know, at least we've got some de-regulatory and lower tax environment that will be helpful and sets us up better to withstand it. It's still going to be brutal. But it wouldn't be as bad as what had been the case had we not had those right policies—

GRANT WILLIAMS: Right. But this push to sort of— for redistribution, that the MMT is pushing for, that Bernie Sanders of the world are pushing for, it's pretty clear that next time around— and there will be a next time. Maybe it's not for a decade. I doubt it. But we don't know. But next time around, there's going to be a need instead of just bailing people out to bail people— to tax assets, to— where do you see the potential places that the government can actually say, OK, right. We need some real money here. We can't just use the funny stuff all the time.

Is it real estate? Is it— is it you increased capital gains taxes? How do they generate this stuff?

STEPHANIE POMBOY: Marijuana.

GRANT WILLIAMS: Marijuana.

STEPHANIE POMBOY: [LAUGHS]

GRANT WILLIAMS: What, they just smoke it and forget about it? Or they tax it?

STEPHANIE POMBOY: I think that's why it's becoming so popular to legalize, is that you can tax the hell out of that. It's a great source of revenues for a lot of cities and states. So, I mean, that's only partially sarcastic. I mean, I think that really is— [LAUGHS] So, to me, that seems to be the direction that people are going.

Obviously, there are some societal consequences that I think are rather unfortunate and will have to be addressed, and we'll end up paying for. But that's an easy place I guess to drum up revenue really quickly. The other taxes that you're talking like wealth taxes and any effort to redistribute income just strikes me as going to destroy any entrepreneurial spirit whatsoever that's so important to keep this capitalist system thriving.
GRANT WILLIAMS: Well, but I mean is capitalism under threat? Like serious threat? Because it kind of seems to be at the moment. It seems to be this movement that is saying, it's done. It's reached its limits. Of course, we don't have capitalism anymore. Not free market capitalism.

STEPHANIE POMBOY: Right.

GRANT WILLIAMS: But is that a legitimate threat, do you think?

STEPHANIE POMBOY: It's something I worry about a lot. And, of course, it's something that becomes even more terrifying if you think we're going to have a meaningful correction in the markets where you basically are annihilating all of that, that perceived wealth that was created gets destroyed. And then the solution to that is to go out and destroy the economy a little bit more and kill the animal spirits that would be necessary to rebuild from something like that.

So that's really-- I'm trying not to get to such a dark place and you kept dragging me back in that.

GRANT WILLIAMS: I'm sorry.

STEPHANIE POMBOY: [LAUGHS]

GRANT WILLIAMS: I'm sorry. I feel bad now. I feel bad now.

STEPHANIE POMBOY: No, no, no. I mean, I think it's remarkable again that we're in this place where we're having a conversation about capitalism versus socialism after a 10 year economic expansion and the longest bull market in history. I mean, that's what's most stunning to me, isn't that the conversation is taking place. It's that it's taking place now against this backdrop. And that is terrifying to me as to what it says about what the conversation is going to be if that backdrop changes for the worse.

GRANT WILLIAMS: Yeah. Look, it is a dark conversation. But, to me, it's worse to just kind of think of it as too dark to talk about. When you look for parallels to this, this massive disparity, the only one you can find in living memory is the 1920s, right? We saw what happened there. It was almost identical, you know, the robber barons versus the oligarchs, and that massive disparity between the 1% and 99%.

And we all know what happened after that. And that's not to say it's going to happen again. But a big part of this is understanding what can happen and then handicapping it. If you think there's a 0% chance, great move on. But there isn't a 0% chance of history repeating itself because it always does.

STEPHANIE POMBOY: So a war? Is that what you're-- [LAUGHS]

GRANT WILLIAMS: Well, a depression first and then a war. Let's get the dominoes falling in order.
STEPHANIE POMBOY: [LAUGHS] I'm just trying to get the order of the pain and misery.

GRANT WILLIAMS: Well, look, as I said, I don't think those-- either of those things are going to happen again. But it's interesting when you listen to our friend at AOC talking, if you count the number of times she uses the word, crisis, she uses it in virtually every sentence. Right? And that idea of a crisis is when big changes-- you need a crisis to make the kinds of changes that everything we've talked about with regards to where the system is, where capitalism itself is, without a crisis you can't make the kind of sweeping changes that you need.

So to me, when I think about it, there has to be a crisis of some sort. And maybe--

STEPHANIE POMBOY: And you don't think plastic straws were that crisis?

GRANT WILLIAMS: Well, look--

STEPHANIE POMBOY: [LAUGHS]

GRANT WILLIAMS: I'm very pro dolphin. I will-- I want that on the record. I'm pro dolphin. But I don't think plastic straws are necessarily the big one. I don't think we'll be talking about the plastic strolled crisis of 2020 in years to come. But you have to kind of think these things through, and work out, OK, where could this go? And when you get to a point where you think, OK, it's not going to go there, then you can start walking it back and planning for slightly less dark outcomes.

But I'm amazed that-- you use the word complacency half a dozen times in this. I'm amazed at the complacency of thought that people have where we're at an extreme in markets. We're at an extreme in all kinds of benchmarks. And yet people either don't want to or are afraid to go to extremes in terms of contemplating outcomes. And that just seems dangerous to me.

STEPHANIE POMBOY: Yeah. Don't you think-- I think it's maybe in part because it's just so hard for people to fathom these possibilities. And in part it's a function of what we've been living through for most of our lives. I mean, we've lived in an era of the Greenspan put and no economic or financial downturn could ever be maintained. You know, we have to come in and always make sure everyone is put on equal footing and we'll bail out everything at every turn. We won't have economic cycles. We won't have financial cycles.

So we've lived in this era that has been fairly Goldilocks. And to tell someone that may all cease to exist. And not only that, but the US economy as you know it could change dramatically. It's just-- I think it's maybe in part that people just can't mentally get their heads around--

GRANT WILLIAMS: Well, like $14 trillion. How do you get your head around that, right?

STEPHANIE POMBOY: I mean, it's ridiculous. That's Monopoly money. It makes you-- you cannot fathom that kind of money. So why talk about that problem? It's just absurd.
GRANT WILLIAMS: Well, I mean, again, I guess. I'm still reeling from you calling me dark. I need to find some way of rescue this. And I've come up with the most genius idea. And I've never-- of all the times you and I have sat in the chair, I've never asked you this-- cryptocurrencies. I'm going to throw you under the bus right now.

STEPHANIE POMBOY: Oh, my god.

GRANT WILLIAMS: Let's talk about cryptocurrency because I honestly don't know your view on them. It's just occurred to me.

STEPHANIE POMBOY: Well, this is embarrassing because I'm going to put myself in the category of people who just don't get it. My mind cannot grasp cryptocurrencies. I mean, I am so clueless about cryptocurrencies that I-- I understand the idea of a digital form of money. That I get. OK, fine. So that will have a future. We'll have digital money.

But why a bitcoin should command a premium over any other form of money, especially when the digital format hasn't really lived up to a lot of the billing that it had, that it would be easier and more convenient, and I don't know. What was the story about the guy who lost the serial numbers and lost all of his money? What happens if you don't have an internet connection? I mean, you have no access to your money? I mean, it's so--

GRANT WILLIAMS: I can hear the fingers flexing over the keyboards in the comments section right now.

STEPHANIE POMBOY: Well, I just-- I mean, this is how clueless I am. These are the thoughts I have because I just don't understand it. It's beyond my realm of comprehension. I am one of those people who just-- I'm a Luddite. I'd rather own gold. I can touch it. I get it. And I can store it in my cozy little home.

GRANT WILLIAMS: Don't say where. Don't say where.

STEPHANIE POMBOY: [LAUGHS]

GRANT WILLIAMS: People are listening. All right. But let’s talk about gold it's a good way to finish because you and I have talked about gold in the past.

STEPHANIE POMBOY: So you’re letting me off the hook on cryptocurrency?

GRANT WILLIAMS: You're off the hook because- no, my work is-- you are officially under the bus already. The comments-- the comments are being written before this airs.

STEPHANIE POMBOY: [LAUGHS]

GRANT WILLIAMS: And they're being typed with two fingers, really, all caps, I'm telling you right now.
STEPHANIE POMBOY: OK. [LAUGHS]

GRANT WILLIAMS: So let's talk about gold. Something you and I--

STEPHANIE POMBOY: And putting exclamation point here and here.

GRANT WILLIAMS: More than you can imagine.

STEPHANIE POMBOY: [LAUGHS]

GRANT WILLIAMS: And hand clap emojis, I think that's the new thing. But let's talk about gold. Because you and I are both on the record as being advocates of gold, of being believers in gold as a portfolio component.

STEPHANIE POMBOY: Can you hear all the people turning off right now? [LAUGHS]

GRANT WILLIAMS: No. They're just typing harder. They're just typing harder. Luddites. We're obviously both Luddites in that respect. But when you look at everything we've talked about-- and if I'd woken you up from a Rip Van Winkle sleep and said, here's the state of the world. Watch this interview. Where's the gold price? I guarantee you--

STEPHANIE POMBOY: 2000

GRANT WILLIAMS: Yeah. Right, you'd have got it wrong. So what do you think is going on in the gold market? What do you think? Is it just nobody really cares? Because central bank seems to. And nobody else really seems to. They're talking one thing and they're doing another thing. What's your view on the gold market right now?

STEPHANIE POMBOY: Maybe I'm coping out on this one because I think I'm not going to buy into all the conspiracy theories about how it's manipulated. And they may not be conspiracy theories. Maybe it is manipulated. And I'm sure the people who are focused on that have arsenals of evidence to support that.

But I just think about it more in terms of the conversations I have with my customers, and the response I get, the body language, the snickers, the hard typing on the keyboard, to suggestions that gold might have a place in your portfolio. And I think it gets back to that idea that things that you and I have talked about here are just so beyond the realm of what they view as possibility that gold just really-- you know, that's for people who actually believe the stuff that we're talking about. [LAUGHS] Like, come on. [LAUGHS]

So it's not something that the average investor really thinks has a place in their portfolio. I mean, why would you carve out 5% away from an investment grade bond, that's actually pre-junk that could earn you 4%, if you get repaid for this piece of metal that, eh--
GRANT WILLIAMS: Well, I mean, this is what I always struggle with, because when you think about this stuff-- and this conversation has really kind of brought it into perspective for me-- is that one by one the subjects you and I have discussed today, you could argue very cogently that gold is a solution to each and every one of them, right? What's the solution to MMT? Well, gold. What's the solution to a massive corporate debt defaults? Well, there's gold. Equity market's falling. It's gold. And yet-- the dollar falling, it's gold.

So I really find it interesting that the price is just kind of not doing much. And people not really bothered about it, except the fanatics on both sides of the argument who are still in there waging war against each other on Twitter and other places.

STEPHANIE POMBOY: Beating their heads into the wall.

GRANT WILLIAMS: But at the meantime central banks are buying gold at a faster pace than I can remember in the last sort of 15, 20 years.

STEPHANIE POMBOY: And they're not necessarily trying to hide it, anyway, you know?

GRANT WILLIAMS: No. Yeah. Something is happening. It's not reflected in the price. I have no idea why that is. I mean, I've read some smart arguments as to why the price would go down when central banks are buying it. And it kind of makes sense to me.

But I really-- I really struggle to understand why more people aren't just thinking about it a bit more. You know? And saying, well, let me talk to Steph about it. She's always been hammering me about gold. Let me the conversation with her.

STEPHANIE POMBOY: Well, can I put it back to you?

GRANT WILLIAMS: Please.

STEPHANIE POMBOY: Because some of it I feel like is, why wouldn't I own cryptocurrency rather than gold? And I'd be interested because I-- as you-- as I demonstrated-- I'm clueless about why cryptocurrency should be viewed as better than any other form of money, much less gold. But do you-- when you talk to people or you think about it yourself, how do you compare gold versus cryptocurrency as an alternate?

GRANT WILLIAMS: Look, I'm probably 80% the Luddite you are. Actually, no. Probably 40%.

STEPHANIE POMBOY: Yeah. I was going to say I don't think that.

GRANT WILLIAMS: Yeah. It's way less than that.

STEPHANIE POMBOY: [LAUGHS]
GRANT WILLIAMS: But, again, the crypto thing, I totally get it. I made the conscious decision a while ago that if I want to stay current on--

STEPHANIE POMBOY: You have to own some, right?

GRANT WILLIAMS: You have to answer some, which I do a little bit. But it's neither here nor there. But you also have to follow it every day because it changes so fast. There's so much going on. And the intellectual capacity of the people who are deep in that space is so much greater than mine in the area that I'm always going to be at a disadvantage.

And so I have friends of mine that pay attention to this and I sort of leech off them their knowledge. The one thing I keep asking myself-- and I'm sure I'll get plenty of answers in the comments section. Thanks for dragging me under the bus with you-- is we're 10 years into this thing now. And for all the promise and all the potential that this thing has, I've yet to see the killer app. I don't see someone saying, aha, there is the perfect demonstration of what the blockchain is about except bitcoin. People argue that Bitcoin is the killer app. Well, that's been around since day one.

So there's all these companies doing amazing things in the crypto space. And I've spoken to a lot of these people and they're incredibly bright, incredibly smart people with big ideas. But I'm still waiting for someone to say, oh, yeah, here's something tangible that you can understand why this thing is the future. Conceptually, I get it. But it seems to be taking a lot longer than I would think when I look at the amount of brainpower being thrown into this thing.

So I'm like you. I'd rather have some gold because I know what it is. I know how it acts in a crisis. I know that if the electricity gets cut off, as long as I've got a torch, I can find where I buried it.

STEPHANIE POMBOY: Right. [LAUGHS]

GRANT WILLIAMS: I'll put the address on Google Maps. So I'd-- yeah, I just-- I don't understand what the price is doing. I don't understand a lot of the movements in the gold markets. But what I do understand is what it does in a crisis. And that's really what I care about.

STEPHANIE POMBOY: Right. Exactly.

GRANT WILLIAMS: I don't care about the price between now and the crisis. I care about when the day you need to have some. If you don't have any, it's too late.

STEPHANIE POMBOY: Yeah. You're not going to be able to get it, for sure.

GRANT WILLIAMS: Well, look, I hate-- I hate it to be me the one that finishes the conversation. It should be you, as the guest. But, look, it's been way too long. It's been way too much fun.

STEPHANIE POMBOY: [LAUGHS]
GRANT WILLIAMS: If you--

STEPHANIE POMBOY: Even though you ran me over in the bus.

GRANT WILLIAMS: -If I have to wait this long to do this again, there's going to be trouble between you and me.

STEPHANIE POMBOY: OK.

GRANT WILLIAMS: We don't want that to happen, all right?

STEPHANIE POMBOY: No.

GRANT WILLIAMS: Steph, thank you so much thank for this.

STEPHANIE POMBOY: Thank you.

GRANT WILLIAMS: I appreciate it.

STEPHANIE POMBOY: My pleasure. [LAUGHS]

GRANT WILLIAMS: All right. Well, I promised you we'd get into all of it, and we did. Some fascinating insight. Steph is someone whose work I rely on way more than I should. It's always great to read. She has a fantastic grasp on these things-- except cryptocurrencies, it would appear. So hopefully you enjoyed that conversation as much as I did, despite the fact the Steph's convinced we're going to have to run the Samaritans helpline number across the bottom of the screen.