



THE NEW MACRO PLAYBOOK

Announcer 00:00:01

Thank you for joining us. Please welcome the panel to the stage.

Stephanie Ruhle 00:00:22

Well, here we go. Thank you. I swear it's a sold-out room, they're just not here yet. First, I want to say thank you so much to Milken for including me today, but thank you to this panel. There is so much for us to cover, and you are all experts, and where I really want to start, because you focus on different regions, different specialties, where do each of you just see? Give me a snapshot of the global economy.

André Esteves 00:00:52

Well, I would—very good always to be here. Thank you, Stephanie, for the introduction. What I consider the most interesting topic on global finance these days is a little bit change on the global capital flows. US has been, in the last four or five years, working as a kind of financial black hole, attracting capitals from everywhere. Money that used to go to Australia, France, Brazil, or Mexico was going to US, for a certain reason. The wealth creation in US was more important than any other region of the world. I would say that more recently, what we are seeing is not an outflow of US, but a more diversified inflow of capital. And, so emerging markets, for example, that were a forgotten asset class for the last six, seven years, became now a considerable asset class for global portfolios. And when I say global portfolios, it doesn't mean if you are a Canadian pension fund, European pension fund, Asian sovereign wealth fund, or even a global family office. All of these sectors are somehow thinking about, having different exposures than only the tech revolution of US that was driving the wealth creation. Still there, we had an amazing performance in April, but a lot of people are trying to look for natural resources, commodity-linked economies, more predictable geopolitical regions. So for me, that's the key phenomenon. But I will stop here to—

Stephanie Ruhle 00:02:36

—George.

André Esteves 00:02:37

—Explore later.

Stephanie Ruhle 00:02:38

For you, you're 3,000 feet above, the global economy is X.

George Goncalves 00:02:44

The global economy is an economy that's still kind of very bifurcated. It's an economy that's still very bifurcated. I mean, you can start here in the US. Clearly there's areas of strength dominated by AI and all the capital that's going there. But you look at a lot of the older industries that are still suffering and not getting the sort of capital relief that they need. So it's kind of still a bifurcated economy. And then to pick up on some of the points that André made around capital flows, at the same time, for 30, 40 years, we had the luxury of low rates, and capital did come to the US because it was best treated there. Now we're seeing rates in Japan staying elevated. We're seeing rates around the world actually offer competition for the US for the first time. So I think we're at the point, it's always hard to call the de-dollarization or the end of the dollar play, but I think we're in the early chapters of that. So I think that it's a transformative time that I think is going to make more of a level playing field.

Stephanie Ruhle 00:02:37

Karen, how would you describe the global economy?

Karen Karniol-Tambour 00:03:48

It's a very unique economy relative to what we've seen over many decades because it is basically being dominated by two massive forces that are not stopping. One is the very different geopolitical paradigm we're in. We've called it modern mercantilism, but it's very different than the world we were in, which was more efficiency, more integration. And—

Stephanie Ruhle 00:04:16

—What does that mean, modern mercantilism?

Karen Karniol-Tambour 00:04:19

It means that every country sees its role much more as needing to maximize wealth and strength of its own country and go after any choke points, any vulnerabilities. Right? If there's anything to be learned from the mix of what's happened on trade, what's happened on Iran, is that whatever vulnerability you have as a country, it will be weaponized against you. It will be weaponized against you, and you should spend all your time, all your energy, all your resources at the sovereign level, going after defense, going after infrastructure, going after things like rare earths. Whatever your vulnerabilities are, you need to go and build them. And back to what the global economy is, that is spending that's not cyclical. It's coming from this view that the world is changing where you can't rely on your allies, where you have to maximize your own wealth and strength, so you need national champions, and you need to worry about your own resilience. And by definition, that's very inflationary spending because instead of saying, "Let's do things in the most efficient place," you're saying, "Well, I've got to be resilient on my own." By definition, that's not the most efficient place. If it was, I would've done it there. I need to do a double do to make sure I'm resilient, I'm a fortress. You look at the way that China's thought this way for a long time and have clearly been very successful. Look how insulated they are during the Iran conflict. Everybody's going after the spending. So that's force number one. And then—

Stephanie Ruhle 00:05:14

And is that a good thing for us to want to be insulated in the way that China is?

Karen Karniol-Tambour 00:05:46

Well, it depends on what you mean by good or bad, right? It's the reality that we're in. And it's hard for anyone to look at the world and not say, "That is the reality that we're in. I really can't rely on others. I really do have to worry about these choke points being weaponized against me." So if you're the United States, you could say, "Well, maybe it's a waste for us to do rare earths. Maybe we don't like the fact that it's a toxic process, and we don't want to do it." Okay, well, that is being weaponized against the United States. The United States doesn't have a lot of choices but to say, "Let's work," and they can choose whether to do it more or less with allies. But the world has shifted to where the paradigm of let's just have integration and do things in the cheapest possible place is just not going to work without you feeling like you could be taken advantage of, or that will be weaponized against you. And then you add to that what, of course, is the massive desire to build out AI infrastructure because scaling laws have continued to work. There's evidence that the bigger you go, the more you build out this infrastructure, the bigger models you can run, there'll actually be a payoff to that, so it's worth doing. And you get another huge source of spending. So, back up to what kind of economy this is, it's an economy that's strong because you have a lot of spending that's not reliant on demand, that's going to keep running. It's inflationary, particularly in the physical world, because you need to literally build out these data centers. You need power, you need defense, you need physical things, and there's only a limited supply of how many of them there are. And it's a kind of misshapen economy because a lot of the spending is not necessarily that employment heavy, so the headline numbers can look a lot better than it feels like on the ground.

Stephanie Ruhle 00:07:23

Seema?

Seema Shah 00:07:25

It's very similar to what Karen said. I would classify the global economy very strong. You've got a lot of divergent discrepancy between the US and certainly Europe. But similar to what you're saying, this is a multipolar world where each country is trying to build up their own sovereign strength, build up their own solid foundations, and trying to plug the gaps that they had. So, for Europe, we all know defense has been a real key issue, and they've already started to increase their spending on that. But then also energy security, AI infrastructure, these are all things which I think in the near term is being exposed, certainly in this instance with the conflict. But hopefully, over time, with the conflict catalyzing a little bit more investment in these things, that you end up with a stronger foundation globally, certainly with some pockets. And I think Latin America, hearing you speak before, Latin America is a key area which is seeing a lot of the benefits of some of this focus on natural minerals. So there's a lot of opportunities, but there's certainly a lot of divergence right now.

Jeffrey Solomon 00:08:22

It's hard for me to argue with anything that anybody said, because I think we're all observing things that we haven't seen historically. And I think that the—Can you hear me? Does that work? I think that this is the result of a lot of the policies the United States has been pursuing in this administration. De-dollarization, de-globalization, these have been stated objectives of the current administration, and now we're seeing it play out. The fact that there are so many countries building their own resilience is a direct response to the fact that the United States may not be spending money with you or may not be trading with you or maybe have increased tariffs with you. And so I would say when I look at the economy, shockingly resilient, is how I would put it. I would've guessed with everything that's going on in the world that we would be seeing more challenges, especially when you look at military conflict and you look at the growth of AI. You have all these big factors, de-globalization, de-dollarization. These are all giant things that are happening that you can't really model up because you haven't really seen it, and you certainly haven't seen it all at one time. And so I would say this is probably a market or an economy that's probably got more risk to it, and I'm surprised that it's doing as well as it is doing.

Stephanie Ruhle 00:09:40

Then Jeff, most people would not have predicted oil being over \$100, but here we are. And if it persists, then we're likely going to see inflationary impact. Consumer prices are going to go up. If that's the case, if we're now operating in a high inflation, very volatile environment, how do people invest?

Jeffrey Solomon 00:10:00

Yeah. So I'm not sure that it's going to be high inflation and high volatility.

Stephanie Ruhle 00:10:05

Okay.

Jeffrey Solomon 00:10:06

Those two may not—It could be higher inflation—

Stephanie Ruhle 00:10:07

—Then let me reframe it. Will we be in that environment?

Jeffrey Solomon 00:10:11

I think people will have to adjust themselves to higher rates for longer. If the war persists, if oil at it continues to be trading north of 100, producer prices will go up, all of the input pricing will go up, and you'll likely see people have to adjust their inflation, not from a demand standpoint. We were used to seeing inflation come as a result of easy monetary policy and demand outstripping supply. That's not what this is going to be. This will be the first time we've seen, I would say, producer price inflation in a very long time. But I don't think that necessarily translates into greater volatility. I just think people are going to have to adjust their growth to deal with the fact that goods are going to be more expensive.

Stephanie Ruhle 00:10:21

I see you nodding, André.

André Esteves 00:10:22

No, I totally agree. On the first topic, I would phrase this new trend as we are changing global supply chains, not in the direction of efficiency, which was the past decades, right? What we called globalization, if you want a simple definition, was the organization of supply chain in the direction of efficiency. If Vietnam is the low-cost producer of this thing, we'll produce there. If Brazil is the low-cost supplier of this thing, we'll buy from there. I think we are reorganizing global supply chains, not necessarily on the

direction of efficiency, but on the direction of national sovereign security. That's one thing. Regarding this last topic of Jeff, I totally agree. I think we are seeing, in terms of inflation, a classic supply shock. Right? It's not a demand shock, it's a supply shock. We don't know how long it takes. We were talking here before that the first day of the war, we imagined it would be one week, the first week of the war, we imagined two weeks, and we are where we are. But it's a classic supply shock. We know how to deal with that. I think it's high inflation on the short middle term. I agree with Jeff that rates will be higher for longer globally, and the volatility was caused in rates markets mostly because all the yield curves in the world were inverted. So when you have inverted yield curves, you have a higher volatility, and especially when you have a scenario change like we had. But not necessarily high inflation means high volatility. When the war somehow is over, or at least mitigated from our analysis, I don't see why volatility will be there, even though that inflation will have a tail together with us for a while.

Stephanie Ruhle 00:12:54

What do you think, Seema?

Seema Shah 00:12:54

Yeah, I guess I agree. I disagree a little bit. I mean, I do think volatility generally is going up. Since COVID, during COVID, the vulnerability of supply chains just became very visible, and I think with geopolitical conflict, you now have a clear source of what each country's going to attack if they need to attack. And as we're looking forward, I can imagine the geopolitical conflict, the frequency of them is going to increase, so to me, the volatility does go up. In terms of the way that the global economy can digest the higher prices and higher inflation that may well come through, I think it can. I think most of these economies have got enough balance sheet strength to absorb it. The real risk, though, is just about the supply. So, when you get those shortages, and you can see it already in a number of countries, mainly in emerging markets so far. So I was in Kenya a few weeks ago, and it was, what, four weeks into the conflict. Now, the government there has stepped in to stop oil prices from hitting consumers, but it's really about the supply, and then you see material construction costs increase by 30 percent in one month. Right? In parts of India, you're seeing the fuel costs, the cooking oil costs increase because there's a shortage. That's where you start to see the real impact. We're sitting here today, and it doesn't feel anything, but if this continues in a month or two, then I think there's going to be pockets of distress.

Stephanie Ruhle 00:14:16

George, what do you think about that? Because when we talk about oil prices being up here, people having higher gas prices is basically the only impact that Americans are talking about. But Seema was just laying out what she experienced in Kenya, and we talk about all these other places where there have been jet fuel shortages. The impact of the conflict in Iran, what it's doing across the world, when is that going to have an impact here to us at home?

George Goncalves 00:14:42

So, look, we're going to feel everything with a lag, and we've been accustomed and kind of expecting everything to happen instantaneously. So, the fact that we haven't seen it means therefore it hasn't happened, and there's a kind of this belief that just because we haven't seen the volatility or the disruptions or the lack of the actual inputs coming from the Middle East, therefore it's not an issue—which is a very naive way to think about it. If you think about it, because we've been in a just in time, especially for markets, everything is so liquified, like we've gamified the markets that we think that because it hasn't happened, therefore it's not an issue. I don't think that's true. I think that we're kind of holding a dam on volatility, that if we truly get another month of this and we start to see the massive shortages, it's not going to be just rates, it's going to be every asset class that's moving. And also just the idea that higher rates, higher inflation, you can have low vol, it becomes much more asymmetrical. The higher the rates are, you have more risk to the downside, and upside too, but a lot more to the downside on any sort of kind of shock. So, I'm more of the camp that there's episodic vol, and we've been so lucky that every once in a while it gets extinguished because there's so much money chasing assets. But there's going to be that moment, and maybe this is the catalyst, this war, and people realizing that we are so dependent on just in time, and markets act like they're just in time because they're sitting on a pool of liquidity.

Stephanie Ruhle 00:16:09

Karen, what do you think?

Karen Karniol-Tambour 00:16:12

I think for market participants, it's not volatility in and of itself that's a problem, it's the fact that portfolios are very similar across the world and not prepared for the particular set of circumstances of where the world is taking us. And so almost every portfolio you look at around the world is highly concentrated geographically, highly concentrated in US equities, and has very little exposure to real assets. So, as you go through this world that is pressuring physical assets so much, and where inflation becomes a relevant consideration again when it hasn't been there for very long, almost nobody has enough inflation protection because very few companies they own are actually backed by hard physical things that are what are being demanded in the real world. People have sort of come out of a lot of the type of emerging market exposures that are really backed by things. Commodities aren't as popular, and so this world that really benefits physical assets, people are not that prepared for it. The second piece is that you're going into this much more fragmented world, and being so US-focused just gets people overly concentrated in the way things could play out. The US has such a high share of global market cap, and there's just a desire to invest here. I think, André, you called it a black hole. It sucked in every dollar, and now folks are looking around saying: "Wait a minute, I have so much exposure to the US, so much exposure to the dollar, do I really not want to be more diversified in a world that is becoming more fragmented because of these issues?" And so volatility in and of itself can be fine if you can use it as an opportunity. The other thing I would say about volatility is that the world has moved so much into illiquids that the ability to change your mind, to be agile, to respond to what's happening has just gone way down. So, if you step back and say, "Okay, I'm going to have an environment where AI could be threatening all sorts of industries," that's not necessarily

a problem if you're not locked into whatever industries you're in and can't make any choices. So, if your whole equity book is private equity, was invested five, seven years ago in whatever set of industries were done then, you just lose a lot of your agility to kind of respond to the times. So, the volatility can be good if you can take advantage of it, if you can respond to it, and if you can be resilient to the different directions that it could take you.

Stephanie Ruhle 00:18:32

Jeff, how disconnected does the market feel from the real economy?

Jeffrey Solomon 00:18:38

Well, I don't know. I think markets, so much of what happens on a day in and day out basis, even on a month in and month out basis, depends on flows. And flows can be completely disconnected from what's happening on the ground. I would say, again, I'm surprised at the resilience of the equity markets in particular on the one hand, but if you look at the dispersion of returns, actually that explains a lot. So we almost have a K effect. We talk about the K economy, right? The haves and the have-nots.

Stephanie Ruhle 00:19:00

But consumer sentiment, right, is in the toilet, yet people are still spending, and the markets are doing really well.

Jeffrey Solomon 00:19:15

Yeah, I think we also see there's some other really big things happening here. Obviously, we talk about AI a lot. We talk about a bunch of different things that are efficient, massive efficiency. So, even though we're having de-globalization and people are going to have to build their separate supply chains, okay, but they're going to be much more efficient about it as they rebuild them because the tools available to them are far better in terms of creating efficiency. And it's hard to measure that, right? So, right now the market feels like, okay, we could probably deal with de-globalization because we see these—where the market is learning from what happened when the internet boom happened in the '90s. Right?

Stephanie Ruhle 00:19:20

Is the market learning, or are we walking the plank again?

Jeffrey Solomon 00:19:52

Well, again, if you have a series of factors that we haven't really ever witnessed before, what does everybody do? Whether they do it with intentionality or they do it sort of subliminally, they go back, and they look for moments in time that they think, "Oh, well, this kind of looks like this, and it kind of looks like that." And what I've heard from a number of investors is, well, we all underestimated the efficiency boom from the internet and e-commerce and a bunch of other things. Remember, there was a lot of highs and lows there. There was a lot of volatility. The NASDAQ went from 5,000 to 1,500 and didn't recover until 2015. The reality is the economy was incredibly resilient, even though prices were massively volatile. And so, I'd say today, it's hard for me to know whether or not the equity market reflects what's happening in the underlying economy. I'm just saying there's all of these countervailing elements. We talked about some of the ones that should be a drag on the global economy, and maybe the market is pricing in this idea that actually we're just going to be a lot more efficient going forward. We'll be able to produce more with less, and everything's going to work out. We'll see how that plays out over time. But right now, that's what it kind of feels like.

Stephanie Ruhle 00:21:03

George?

George Goncalves 00:21:04

But aren't we all just kind of masked by the nominal money illusion? Because at the end of the day, everything's indexed nominally. Earnings are indexed nominally, so it looks like everything's on the upswing, but it's very concentrated, right? So, that's the challenge, I think, for the fact that the US markets are the dominant asset class for all investors globally. But to Karen's point about the rigidities, that's why you get these air pockets every so often, because we're so rigid, and then we have to kind of adjust. I just feel like we're fortunate because we have the nominal tailwinds behind us from fiscal, from just the nonstop AI spending. You take that away, it's not as strong of an economy, both in the US but globally especially.

Seema Shah 00:21:45

If you're thinking about the US, and I get your point about the concentration, but then even during the conflict, the US is—at the start of the year, everyone talked about international markets, the momentum that was going on in Europe and Asia, and then you get to the conflict, and the US has then once again proved itself as the most resilient for a number of reasons, but one of them being regulation and innovation, which means that structurally, it can continue to outperform. So, you can take it, and certainly the fiscal policy, the monetary policy all helps, but I think fundamentally, the US is still a strong story. And one thing that's interesting is that I went to a couple of sessions today, and it's an interesting sense of negativity around Europe, when just two months ago, everyone was talking about how great it was. And that is very short-termist. And look, yes, I'm from London, but I'm—

Stephanie Ruhle 00:22:35

—Wait, it was very short-termist two months ago, or it's very short-termist now?

Seema Shah 00:22:38

It's very short-termist now because they can see that Europe is struggling right now, and then extrapolating that out forward, which we're at Milken, we should be forward-looking.

André Esteves 00:22:50

Oh, I agree with most of what has been said, but I would highlight some changes in the shape of financial markets. First, what we all said, the US concentration of global markets, right? The participation of US in MSCI is in the all-time highs even today. Second, the outperformance of the tech stocks. If you look at the S&P on one stock, one point, the index was one and a half percent up last year, which means nothing happened in the traditional economy, let's call it this way. The second is the improvement of—the increase of the retail participation in US markets. So, today is the front page of FT, how relevant retail investors became for the liquidity and the price formation on US markets, which is something very different from most of our careers. And another interesting factor that happened in the last 10 years that is also, in a certain way, reverting, was an economy or investment policy was moving from public markets to private markets. This was a 10-year trend, eventually even a little bit more. And I do see this trend changing a little bit. I think there is a reversal of private markets in the direction of public markets. When I say private and public, I'm talking about equities and credit. So, this is creating a new shape of markets. Not necessarily better or worse, but it's just a different market, which makes a difference when you do your modeling, your analysis, your forecasts. But I agree with Jeff point about the resilience of the economies, and not only in US. It's happening everywhere. I'm surprised with the economy in Europe or US or Brazil. It's all the economies, they look stronger than they should, given where interest rates are or where the uncertainties are. And to conclude, the last topic is related to productivity. We underestimated that when the internet came up 20 years ago. And you have this Kevin Warsh call, for example, about the productivity of AI, and I think it's a pretty valid discussion. How much productivity we'll have. I'm not a big defender of this white-collar recession, 20 percent unemployment. It's too chaotic, I think, to this topic. I don't think it will happen. But the productivity gain will be amazing in all of our business, all of our sectors. Today we are trading the AI infrastructure building. But I think the next five years or 10 years, we'll be trading the AI productivity gains. And that's, I think, a very interesting market topic for us to be discussing in future panels like this.

Jeffrey Solomon 00:26:09

By the way, right now, somebody clearly is taking this whole conversation and dropping it into Claude. Maybe they're vibe coding their own macro model while they're watching this. I know that sounds crazy, but everything we do, if you could crowdsource everything we do on this panel, everything we say on this panel, or everything we're doing, that technology exists for you to create your own fund if you wanted to.

This is what I'm saying, the productivity that is likely to be unleashed by this allows people to do more than one thing at one time. Or they'll do more of the same thing. They'll do 10X the same thing they've been doing because a lot of the menial work and the administrative work associated with will be done for them. I think we're just scratching the surface of this. I think a lot of people, if you look at, for most organizations on AI, most large organizations, the question is "how do you protect your own data?" I still think a lot of organizations are working through that. People don't want to throw their data out into the general population, so they're ingesting AI, running their own AI models internally so that they can actually protect themselves from sharing. But that stuff is, we're still in the early innings of that. And so that's why I think this productivity boom, people may be anticipating it, but I don't think we've yet seen it.

Karen Karniol-Tambour 00:27:25

Yeah, I think you're making a very important distinction between the CapEx phase of AI and the adoption phase. And the CapEx phase, we're in the midst of it. I think it's a big part of answering the puzzle you're laying out, Stephanie, of how could it be that there's this divergence. Well, this is the biggest CapEx boom of all time. Like, maybe World War II. This is the biggest CapEx boom of all time, and we know we're nowhere near at the edge of it from the simple fact that there are no dark GPUs. If you look at the internet boom, cable was laid for the future because people will need it, but wasn't yet used. People were waiting for the demand. Now there's no such thing. Any GPU, immediately used. Any memory, all these pieces are immediately getting used, and so there's a huge desire to keep building. We know that massive CapEx booms support profits in this very mechanical way. Right? Like, one side writes it in depreciation, one side writes it as profits. It can build on itself. We also know that that boom is not very employment-intensive because you are more or less buying magical boxes from Taiwan and buying some magical stuff from Korea. You're not employing lots and lots of people to build these data centers. So, we're in the midst of this CapEx boom of AI, and that's what's dominating US growth today. If you look at US growth today, the big piece of it is it's being supported by AI CapEx. AI adoption has not yet gotten to the point where it is hitting the bottom line macro stats. And even market pricing is still relatively speculative. We don't really know exactly where that's going to be. So, if you look at the companies that have had investors most concerned are going to be the losers on the adoption side, and you say, what's the probability really being priced in by the markets that that business is dying, that this is like a melting ice cube that every year it's going to go away? It's not a very high probability the market is putting on that at this point. There's a lot more room for adoption effects to still show up in the pricing, and there's a wide range of where that could go. The analogy I would have is if you look at what happened to manufacturing, where over something like ten-ish years, we took about 10 percent of the population and got them out of manufacturing employment, partly going to poorer countries and partly being automated. So a typical manufacturing employee is a lot more productive today than they used to be. That process, you could say it all ended up okay, right? We don't have massive widespread unemployment because of it, but it was unbelievably disruptive. And you could argue that the political and social consequences of that are still with us today. And the one thing I think we know about AI adoption is it's very hard to believe that process won't be bigger and faster. It's very hard to believe that it'll take longer than 10 years and not less, that it'll be less than 10 percent of the workforce and not more. So, whether you're optimistic or not about the ending spot, the disruption along the way is a very big deal, and that has barely gotten started. We're mostly living with a market that is euphoric because of the CapEx phase, which is supporting so much.

Stephanie Ruhle 00:30:40

And how much do you factor in the demand in the AI race, Karen, for physical assets, right? Or George. When we think about the race, there's also the data centers, the electricity, the semiconductors, the rare earth minerals. How much does that factor in, or should we be thinking about, George, when it comes to this race?

George Goncalves 00:31:01

So, I think Karen made a lot of great cogent points. I guess, and the one thing that I agree, this is not like dark fiber back in 2000 through 2005, which took a while for us to finally optimize and there's still a lot of dark fiber we're not using. But isn't the limits and the constraints around the resources, like if we're in this war for longer, energy inputs, there is a constraint even in the build-out that do you get to actually realize all the benefit of AI, and maybe it takes three to five years down the road. So isn't there like a timing and constraint around the resources themselves? Which goes back to your initial point, which is that being long hard assets that go into all of this is probably like the first safer bet, considering how all the euphoria and all the sort of valuations being where they are. So, I struggle with the constraints around maybe in theory, if you have an infinite access to resources, you can build to the moon and you can get all this AI productivity eventually out of it. But we're going to run up against constraints, and I feel at some point we're getting close. Both capital constraints, is there enough capital? I mean, we're talking about the US being the dominant sort of black hole of capital coming to the US. If we lose that for whatever reason, and it could be just crowding out because there's so much other governments now issuing debt to deal with their own industrial policies. Is there enough to share? Is the pie big enough, I guess, is the question on constraints for the inputs, capital, the cost of capital. So I struggle with that.

Seema Shah 00:32:29

Yeah, to me, that is exactly what the geopolitical conflict is about, though. It's an AI arms race. It's about trying to get hold of all the resources that is required to fire up all the technology that is happening. So, this is an embarrassing story, but so a few weeks ago, when the news broke out about helium not getting through the strait, and in my defense, I'd just been traveling and I'd got off a long red-eye flight. And I saw that helium goes into chip making, and I was like, "Wow." I'm British, so I don't use the word chips for crisps, but I use the word crisp for chips. And so I thought, "Wow, I should stock up on my Walker's—

Stephanie Ruhle 00:33:15

—Chips?

Seema Shah 00:33:16

Salt and vinegar crisps." Anyway, it took me about an hour before I realized, "oh, okay, chips, like the most important segment." Anyway. But to me, that is a real risk. So we assume that this tech boom is going to

continue to fire power everything going forward, and ideally it should. But the geopolitical way that the world is moving means that that genuinely is a bit of a stress point that we have to acknowledge as well.

Stephanie Ruhle 00:33:40

Jeff, with all of this upheaval, right, in all these different verticals, when you look back, right, there was huge intervention from central banks and elected leaders when we went through the pandemic, when we went through the '08 crisis. Here we find ourselves with so much upheaval.

Jeffrey Solomon 00:33:56

Yeah.

Stephanie Ruhle 00:33:57

Do you believe the involvement from elected leaders and from central banks around the world is going to help or hinder economic growth?

Jeffrey Solomon 00:34:06

So, first of all, let me just say, Seema, I thought you were from Brooklyn. I just—

Stephanie Ruhle 00:34:12

—Of course you did. You're from Pittsburgh, what did you think?

Jeffrey Solomon 00:34:14

I am. I know. Everything sounds like a New York accent to me. I think you're actually hitting on something that is very important, which is we need to talk about—every time we have these gatherings at Milken, I'm always reminded, and I think Mike does a good job at this, right, reminding us how privileged we are to be here. And that there are literally millions and millions of other people that don't benefit from the things we're talking about yet. And I think the real challenge we all have, and I wouldn't say just elected leaders, though elected leaders have a role to play in this, is the misallocation of resources that enables the K economies globally to exist. And so, if we continue down a path where wealth disparity continues to grow at the rate that it's been growing, there will be political upheaval. There are—

Stephanie Ruhle 00:35:05

We are continuing on it. That's not an "if".

Jeffrey Solomon 00:35:06

Right.

Stephanie Ruhle 00:35:07

We are continuing on it.

Jeffrey Solomon 00:35:08

And so the question I think that is a bigger question is you asked whether the political class will be helpful or hurtful. And I would say to you, if we don't figure out, we in the business community, we in the financial community, figure out how to be more inclusive, where economic advancement is available to more people, then those people will take matters into their own hands. And you're already seeing it. There are generations behind us who routinely talk about the fact that capitalism isn't the best path forward, or that it's not even remotely close. And so, I feel like you asked a question about political class, I asked a question about class, just generally. And I think we're right at the beginning of a potentially really bad class struggle, where that upheaval could happen through elected office. And if that happens, a lot of the stuff that we're talking about here is not priced into the market. And to me, if I look at down the road, two years, four years, six years, eight years, whatever the increment looks like, if we end up in a situation where elected leaders, certainly here in the US, are taking matters into their own hands to reallocate resources as they see fit from a social standpoint, that's not something that the equity markets or the credit markets are really factoring in. And it could happen here, unless there's a real change in the way we deal with the wealth gap. And I would strongly encourage everyone to think about what they're doing on that front.

André Esteves 00:36:37

I would like to bring back—I agree with Jeff, but I want to add another topic. Since we are talking about the new macro playbook, we should talk about fiscal situation, moving from micro to macro more. You mentioned central banks and governments, and I think something quite interesting happening. Since the COVID and all of us and the modern democracies needed to deal with the challenge of COVID, we increased our deficits to support the society, and it was the right thing to do. But we couldn't come back, and we are now with record deficits, a record size of debt in countries like US, France, UK, Japan. All the modern democracies are suffering the same problem. And difficult, the political systems, to figure out a solution for that. And it's interesting to observe, and with important financial consequence. Look, in France you have now a number of corporate bonds that trade below the sovereign. We see consistent

downgrades in countries like UK or France, and doubts about the future sustainability of Japan debt, even with that huge internal savings. So, I think this angle of how we should manage our public finance on the top of what we discussed on a microeconomic level in terms of inequality and a reaction, I think this could create some sort of political setback, because it's unclear, and the modern democracies, which are still relatively young. We have been practicing Western democracy of the last 100 years. It's still an early experiment from a sociological point of view. And we are not dealing with this situation. I'm afraid of, in a near future, if we don't fix both situations, we'll be facing some sort of financial repression, even in countries that we consider sound and safe historically.

Stephanie Ruhle 00:38:56

I'm guessing you all want to weigh in on that. George?

George Goncalves 00:38:59

So, after COVID, I mean after pandemic, we've been running the US wartime measure-type deficits regardless in whatever administration, and it's now a common feature, but we were lucky. We had the luxury of that happening. And the rest of the world did also spend, to André's point, but no one spent like the US coming out of the pandemic, and it kept going for the last three, four years afterwards. And we were lucky because the rest of the world was giving us all this capital. But this is where I keep coming back to the idea, I hope the pie keeps growing for capital allocation to sovereign issuers, but, I mean, I think we're getting to that point where you get the crowding out. And that's where it will also impact the private sector, too. So, I'm more concerned about we've been running it hot, and we're going to have to keep running it hot. At what point do we actually make those tough decisions to then bring down—We're not going to be fiscal austere. Let's just be honest. But how do you do it? Because their only definition is we're going to grow our way out of it. And maybe we will, and maybe we'll see those growth dividends in the coming futures. But 2 percent growth in the US, considering all the sort of money that we're spending, and nearly half of that is coming from AI-related adjacent industries, then how are we going to get it up to 3-4 percent growth so we can actually pay down our debt? No one solves that equation. Everyone's like, "Oh, it's going to come, so therefore it's going to be fine and sustainable." It's not sustainable. It has not been sustainable. And now that all countries, like Europe, has to build up their military. Asia's doing similar capacity, trying to ramp up or spending fiscally. Where's that marginal dollar or yen or renminbi or euro going to come from, or pound, I guess? But how are you going to fund all these deficits forever? And it's going to cause a friction, which is one of the part of our discussions around capital flows. It's going to keep capital at home, and I think people are not ready for that. Capital at home ties back to Karen's point. If we're going to be more focused on our local industries, capital's just not going to leave as often.

Karen Karniol-Tambour 00:41:05

Look, there's no precision about what makes you hit the fiscal limits. It's not like a certain number, like you get to a certain debt level and "Bam!", you blow up. It's a mix, and at the end of the day, you're not at your limit if you don't have a problem with inflation or with your currency. And what's happening to different

extent in different parts of the world is just a lot is being asked of the sovereign, and different countries are kind of flirting with those limits. And they get told by the market, a mix of inflation, what the bond yield's doing, what's happening with the currency, when they're kind of at their limit and can't go further than that. And this is somewhat exacerbated by the tremendous tension on institutions. And we're in this world, we've been talking about it, but where all of these liberal democracies have this groundswell of public sense that the system is not working as it should, that coming out of the decades behind us, and this is happening before meaningful AI adoption, the sense that something should change, the system should be doing things differently, that capitalism is not working well for people. So, the pressure that's creating on institutions at the same time, the governments already have high debts and are sort of flirting with fiscal limits, and what populism does sort of on the other side of that, it's certainly a risk, and we've seen different countries come closer to what it's like when you start hitting those limits. And I just put it in the category of the range of risks that could get us out of that kind of central modal outcome where growth just keeps running, even though it's a little hot, a little inflationary, but it's generally a good time for markets. There's a few limits we're going to run up against, and one of them is clearly the fiscal one.

Stephanie Ruhle 00:42:54

Seema?

Seema Shah 00:42:55

Yeah, so you mentioned, financial repression, and Jeff, you and I were talking before about the UK. So, I'm in London. I think this is the economy, which is a perfect example, where you take out some of the growth strengths via Brexit, and you combine it with a fiscal deficit. You have social problems, you have a fiscal deficit, and the capital just leaves. There's very, very few attractive investment opportunities in the UK compared to others. But the other thing is, is that in the US, of course, we look at the deficit in a really negative format, negative way. But then if you're thinking about Europe, actually everyone celebrates the fact that they're starting to spend, because it depends on where you're spending. Are you spending it in a way which is going to increase your long-term growth? Is it going to increase productivity? And so I think that's the difference, and I think the US probably certainly has time, as you said, who knows? There's no specific time or limit that you hit that point. But there is a divergence between the way that you're going to think about the fiscal deficit and the impact.

Jeffrey Solomon 00:43:59

Can I just add one thing? That on these panels, I always feel like we get stuck in sort of the near-termism of what's happening right now, and I think it's helpful, at least whenever I was consuming these panels, to think about one or two things that people aren't necessarily thinking about and the long-term impact of that. And so to me, there's something happening in the financial system with the advent of tokenization and digital assets. Right? And I know there's a lot of controversy about whether or not we're going to get the CLARITY Act after the GENIUS Act and all that. The GENIUS Act has done one thing globally, and that's forced every major G7 country to deal with, what am I going to do with digital assets, and how is

that going to work? To me, if I had one takeaway from this, is that the movement of money will be more efficient, right? And there'll be different stores of value other than just leaving money at your bank. Whether stablecoins get yield or not, we can debate it. Even if they don't, there will be things like tokenized money funds in a bunch of other places where individuals can leave their money and move it at a microsecond's moment in the not-too-distant future. What does this mean? It generally means that free cash balances won't be sitting around banking institutions for very long. We in the banking business make a lot of money on free cash balances. We are very happy to have you leave money in your checking account and not pay you interest. That's probably going away in the next decade. What that translates in for me is a higher cost of credit, because at the end of the day, we still drive a lot of value off of net interest income. And if we don't have zero-interest demand deposit accounts as a way to bring down our cost of capital, we will pass that cost of capital in one form or another on to consumers. That's probably happening here at some point over the next decade, unless something else comes along and makes it easier. I just think the days of really easy credit, really low-interest loans, that's probably not going to happen again.

Stephanie Ruhle 00:46:00

But you—

Jeffrey Solomon 00:46:00

And I think that's something we should all be thinking about—

Stephanie Ruhle 00:46:15

But you believe this digital revolution that we've been waiting for is still on the horizon?

Jeffrey Solomon 00:46:20

Well, so I think that the Genius Act pretty much put it there, where it says banks have gone from like, "Do not touch this, because a lot of bad stuff happens out there," to, "You must touch this." Right? You have to figure out what your strategy is for engaging with digital assets, because it really is an efficiency. There really is a lot of money that's left for banks that a lot of corporate treasurers would like, and a lot of individuals would like to be able to move their money on a moment's notice and get yield. I see a future where people are going to get intraday interest credit, because you can do that on chain. It already exists today. The only thing that doesn't exist yet is the regulatory envelope and the technology adoption, but that's going to happen. Banks are spending lots of money on figuring that out, and I think it's going to happen in the not-too-distant future, and a lot of non-bank financial institutions are also doing it. Money managers, BlackRock launched its tokenized money fund. I would say Franklin Templeton has had one for

three years. This is what's going to happen, and those will become your demand deposit accounts of the future, in my humble opinion.

André Esteves 00:47:25

I will make two observations. First, regarding Seema—kind of where governments are spending, I don't think governments are spending in the direction of productivity. What we are seeing is two big classes of spend increases, defense and money transfers to the societies. None of them, I think, are productivity driven. This huge CapEx boom is driven completely by private sector, and I do see governments stake on global CapEx reducing, not increasing. So, I still think that the deficit is a big macroeconomic issue for us. And when we say financial repression, I think everything from a wealth tax to a money transfer tax, or just tax increase, all sorts of financial repression. It's not the classic Argentinian kind of financial repression. It can come in different formats and different levels, but I think we have a real risk of this being ahead of us in the next five years. Regarding digital currencies, I agree with Jeff about the technologies there. It's available, and in many cases, increase productivity, and will be to the benefit of society. But I think we are, governments and regulators, undermining the risk of shutting down this very reasonably efficient anti-money laundering system that now permeates the global financial markets. So, we have reasonably good controls that were built in the last 20 years, and now it's being somehow outperforming for this innovation. Innovation is good, but security is better. So, I'm afraid of bad use of this technology that is happening now, today, as we speak, clearly, and we are doing nothing very special about that.

George Goncalves 00:49:38

Yeah, but Jeff brings up a good point. I mean, the fact that the US has led with the regulation around the Genius Act, clarity. I'm a big macro picture thinker, and I don't go into the weeds around digital assets. But just thinking about if you had a thought experiment around if you wanted to reinvent the payment systems in the most organic way, you could've asked all the banks to think of new systems. You could've asked the central banks to do that, too. And this kind of a cottage industry approach, and then seeing what works best and iterating through, and then the US kind of leading the charge on that, you can still get the safeguards over time through the regulation angle, and that's where the fact that all these other countries have now kickstarted their own regulation because they're forced to compete with the US and stablecoins and all the other digital infrastructure that we're putting in place. In many ways, this further cements the US' place and the role financially, number one, and also keeps the dollar still as the preeminent reserve currency. So, in a way, if it wasn't for digital assets and the revolution in the last 10, 15 years, we would not be where we are now in terms of the efficiencies that we're going to get, hopefully, from all this digital infrastructure. So, I'm more sympathetic to the digital side. And I do think that it does mean that government issuers have to then change. You're already seeing government issuers issue less long-term debt because the capital is not being used to build a bridge or build a new tunnel or a dam. It's, yes, giving out entitlements or military spending. If we're going to change the world to a much more faster payment system, you need to have shorter liabilities on the sovereign side to match up with the natural investor, which is going to become more domestic based. And so, I do think that this is all part and parcel, and it's coming around full circle, that we are seeing an evolution of the global bond markets, especially on the sovereign side, to match up with a much faster digital world that we're moving to that's going to be

compute based, that needs to clear transactions fast. The old way is going to have to change, and I think this is what was ultimately going to happen.

Stephanie Ruhle 00:51:49

Karen, what do you think?

Karen Karniol-Tambour 00:51:51

Look, I think that for most institutional investors, this is not a big part of the big challenges they have to solve and where they have to go. And so, the way this could hit is if it does end up hitting the macro, which you're making some suggestions, Jeff, of the way that this could end up hitting. There are a lot of ways the world is changing, that it's changing a lot faster.

Stephanie Ruhle 00:52:20

Okay, then let's go back to macro in a different way. Traditionally, when the world faces economic crises of sorts, the US is the global leader. Given how divided things are right now, if things were to get worse, do you see the US coordinating again and working together with our allies, or are we in a whole new landscape?

Karen Karniol-Tambour 00:52:43

I think we're clearly in a whole new landscape of everyone out for themselves, and that—

Stephanie Ruhle 00:52:49

What's that going to look like?

Karen Karniol-Tambour 00:52:50

Well, I think that there was some pointing at it and hinting at it in the panel. Different countries are setting up their own ecosystems, and these are important investable opportunities for people. And so, if you look at the spectrum, there's countries like Europe, that Seema pointed at, like Germany, hadn't previously been big borrowers. So, they have the room to be going out and borrowing, and that's why the market's excited to say, "Wait a minute, these guys are actually going to borrow. They're going to do something. They're going to try to bring the capital back in." This will become its own sort of ecosystem. Europe will be even

more its own defense ecosystem. They'll have to be. They'll have no choice. If you look at AI, the obvious silicon curtain that's forming is that China's looking at this and saying so much is being done to contain China, right? Limitations on what they can bring in, limitations on what they can import, that they're hell-bent on developing their own and making sure that they have a top-down support to form their own competitors, whether it's chips or memory or foundries. Any one of these companies that they have limitations, ASML, EUV machines, they're going to try to make their own. So, that becomes sort of its own ecosystem that you look at a company and instead of saying, "is this the most globally competitive company?" Or, you know, "can NVIDIA or TSMC do better?" The better question is, well, are they protected? Do they have a top-down perspective to create a national champion that will create that captive market that'll make sure that these companies are developing to do their own thing? Look at cars in the United States. We're just not letting in the Chinese cars that are just better than US cars. That's going to be a car market that's its own. So, you're getting these pools that are, in different ways, captive markets protected by their own industrial policies. And so for investors, that's a big shift, and you don't want to be in only one of those pools. You want to be able to find the investable opportunities in these pockets that are closing in on their own walls because of the world forcing that resilience, that its own market, and that fragmentation.

Stephanie Ruhle 00:55:00

Is this fragmentation that we're sort of initiating, are we opening the door, Jeff, for China to step in and be that global leader?

Jeffrey Solomon 00:55:09

There's always that risk. I certainly think so, but I do think there's something to democracy and transparency, and I—

Stephanie Ruhle 00:55:16

—Assuming we still have both—

Jeffrey Solomon 00:55:18

Well, again, we have more of it than they do. How's that? Okay. I'm not going to pass judgment on it. We just do. And the more that people can see—again, we get a lot of volatility, we get a lot of arguing, but at the end of the day, people can see it, and everyone knows what side. People are pretty vocal about what side they're on. There's no X in China. Okay. So I think that's important for investors. Investors actually need to be able to weed through the noise to find the signal. If there's no noise, there's no signal. So, what do you do in China when they decide to change their mind, but they don't tell anybody? Until that changes, I don't see China being as much of a threat as they potentially could be. It doesn't mean that they

won't be going and doing deals in rare earths and all these things that they're doing in different parts of the world, and throwing money around. 100 percent, they're going to do that. But does the Yuan become the world's reserve currency? That's a really hard one for me, and honestly, when I lay awake at night and I worry about that, if you ask me, what's the one thing that would fundamentally change everything we've talked about for the last hour? It's if the US dollar is no longer the world's reserve currency. Then we're in zero gravity, and things are spinning around until something else steps up to be that. And so, this is why I bristle every time the administration does something that I think damages the brand of the dollar, and this is why I think we should be all doing things that, at least for the good of the global economy, to not upset that applecart. Because if we were in transition on that, then I think everything we've talked about would be all bets are off, in my opinion.

Stephanie Ruhle 00:56:55

Seema.

Seema Shah 00:56:56

Yeah. So, I one hundred percent agree with that. The US, it's secure at the moment with reserve currency. And whenever we talk about it, it's a long day in the future, right? That one day very far out. But I think that we're essentially progressing towards something. Countries are slowly making their case to become the new reserve currency. But the interesting thing is, is that, look, we're sitting in the US. If you're in Asia and you're sat there, from their perspective, there's a ton of strength and that the dimensions where the epicenter is moving from the US to Asia. So you have very different conversations depending where you're sitting. And so, whereas today China is certainly not a leader and there's a lot of work to be done to make it more acceptable, but it is definitely moving in that direction and certainly more strategic that it is, I think, a significant risk.

Stephanie Ruhle 00:57:46

André.

André Esteves 00:57:47

I would say that I agree, and I don't see the dollar being challenged as a reserve currency as long as we can see. It will not happen, and there is a simple decision for that. As long as China participates more and wants to have geopolitical—be a geopolitical reference, they don't want to have a convertible renminbi. So China doesn't want that. But there is something else not related to reserve currency, which is the relevance of China as a FDI investor globally, and I think this is very important. And now China is, at the margin, much more important investor than US. So if you look at basically every emerging market, China is the most important foreign direct investor. And especially in infrastructure, it's a reality. It's happening.

Stephanie Ruhle 00:58:43

Yep.

André Esteves 00:58:44

So, no reserve currency, but a different role for China and a more important role than ever.

George Goncalves 00:58:52

Yeah, the only thing I would say to think about all the things I heard from the rest of the panel, if we're having different ecosystems, the common thread has been the dollar because the infrastructure's there. But if we're going to have different ecosystems, we're going to have different currency blocks. We're going to have Fortress North America, Fortress Europe, Fortress Asia, Fortress Southeast Asia, whatever you want to call it, Africa. If we're all going to get more regional and it's going to be industrial policy based, looking for infrastructure, building redundancies, that's inflationary. That takes away the strength of the dollar. So, again, these are all these inconsistencies which in the short run you can't really trade off of, but in the long term are coming. I'll add one point as an American, this year we beat the Brits at being the second-longest reserve currency. They were at 105 years, now we're at 106. I think we got another four to maybe 16 years left in it. But if we truly are at this fork in the road where everyone's going to go on their own, then you're going to see actual different currency blocks form. It's only going to happen naturally.

Stephanie Ruhle 00:59:54

All right. We're out of time. Quickly, yes, no, because you're all big thinkers and probably the biggest shock to the system right now is figuring out the conflict in the Gulf, how long will it last? December 31st of this year, is it still going on, yes or no?

Jeffrey Solomon 01:00:07

No.

Seema Shah 01:00:08

No.

Karen Karniol-Tambour 01:00:09

In some modest format.

George Goncalves 01:00:12

I agree with that. It's going to be dragged out.

André Esteves 01:00:14

I think it will be reduced in terms of relevance, but still there.

Stephanie Ruhle 01:00:19

Well, as long as Claude is listening, they're going to write it down. Your predictions will be known forever. Thank you all so, so much. Thank you.

Disclaimer: This transcript was reviewed by individuals for accuracy and serves as a reference. However, it may still contain errors or omissions. Please verify any critical information independently.