Joe (00:00)
So James, obviously ever since liberation day, the stock market's been crazy up and down, but it looks like there's something a little bit more important going on when it comes to the bond market, because usually I've seen stocks go down and people pile into the bond market. So bond yields go down and that happened initially, but now bond yields are going back up. Can you explain what's going on?

James (00:23)
What does all that mean? Right.

I mean, that's the thing about investing. the thing that comes to mind for virtually everybody, some people would think real estate and now you have a lot of people think crypto, but most people probably think the stock market, right? That's what everybody kind of thinks of with Apple and Nvidia and all these kinds of companies. But the thing about it the stock market is important. The stock market is important because so many people are invested in it. And the stock market is important for the government.

as well because the stock market is the single largest source of capital gains tax revenue for the federal government in the United States. the government, kind of, they've been saying the other day, go, well, you we don't want the stock to go down, but we don't really care if it goes down. They've been giving these speeches saying we're all about Main Street, not Wall Street. You hold on. The two are not diametrically opposed. You know, there's a lot of

regular, everyday people that are invested in stocks, whether they realize it or not, even if they work for some company that has like a pension fund, the pension funds invested in stocks. So it matters. But it matters to the government because the stock market is the single, largest source of capital gains tax revenue. And I actually went back and crunched the numbers on this with a little bit of help from Grok and pulling all, scraping all this data. And what you find is you see over time mapping basically the increase in the stock market.

total stock market capitalization relative to, I pulled all this IRS tax data from the IRS and you can see relative to total stock market capitalization relative to the total capital gains reported by US investors in the United States. And what you see is that the three year, cause people aren't gonna sell it like, it went up this year, so I'm gonna sell or went down this year, so I'm not gonna sell. But if you look at it on a longer term basis in a three year moving average of total stock market capitalization,

There's almost a perfect correlation between the three-year moving average of total stock market capitalization and U.S. capital gains tax-driven reported by U.S. taxpayers. So it's a really, really big deal.

Joe (02:18)
You're saying that

as the stock market increases, capital gains increase because people are selling and then the tax collected from the government on capital gains increases, okay.

James (02:24)
Right.

Exactly right. Exactly right. When

the stock market goes up, the government tax revenue increases. When the stock market goes down, government tax revenue decreases, right? So it's almost a perfect correlation. It's almost a perfect correlation on a three-year moving average basis. So the stock market does matter when these guys say like, well, we don't really care about the stock market. Well, you should because it's a really big source of tax revenue. And so if you see the stock market get wiped out by $10 trillion,

You're looking at losing hundreds of billions of dollars in tax revenue as a result of that.

Joe (02:58)
Now, but aren't people

selling so wouldn't when they sell that trigger some capital gains, assuming they're selling up on an investment? Or is that?

James (03:06)
Yeah,

but again, think about the correlation. So the moving averages, when the stock market capitalization falls, you are losing capital gains tax rate. So that's just the math. That's the math behind it. So we might actually do it a separate thing and kind of publish that and show people the results. Just as an aside, Grok was really useful in helping sort of analyze the data, because I kept looking at it then Grok says, maybe we should try moving average. go, yeah, let's try moving average, Grok. So it came back and actually showed some really interesting data. But the moral of story is that

Joe (03:23)
Hehehehe

James (03:35)
People pay attention to the stock market, but the bond market is actually far, far more important. And the reason why is because at the end of the day, it's the bond market that dictates where the interest rates will be. And interest rates are so critical to an economy. Interest rates basically determine whether or not consumers are going to go out and borrow. It drives consumer spending behavior. It drives a lot of business and corporate spending behavior, corporate investments. And it also is a really big deal for obviously the federal government.

federal government has $36 trillion in debt. Last year in FY24, they spent $1.1 trillion just to pay interest. And so obviously, if they're spending $1.1 trillion just to pay interest, and interest rates are rising because the bond market is pushing interest rates up, that's a really big deal for the federal government because now you're going to go, oh, man, last year was $1.1 trillion we spent on interest, this year could be $1.5 trillion.

just on interest on the national debt. So that's why the bond market is a really, really big deal because it's the bond market that ultimately drives interest rates. And when you have $36 trillion national debt, interest rates are a really, really big deal. You're very sensitive to changes in interest rates.

Joe (04:46)
So why are the rates going up then? That means somebody is selling bonds.

James (04:51)
Right, so you gotta think about interest rates, bond yields ultimately, right? So what happens, how do bond yields rise and fall? Well, it's based on supply and demand for bonds. If you have a lot of people selling bonds, right? Now all of sudden the supply of bonds increases. So you got a lot of people selling bonds. And then you think about if you're like the one guy who's willing to buy bonds and everybody's trying to sell you the bond, you're gonna take the bond that has the highest yield.

Obviously, like if somebody's going, got a bond yielding 3 % and somebody else says, I got one yielding 4%, I got one yielding 5%, you're to take the one that yields 5%, right? Because that's the one you've got to certain them, you got a finite amount of capital, you're going to take the best bond and that best bond is going to be the one that pays you the most money. It's got the highest yield, right? Everything else being equal. And so that's basically what ends up happening is that, you you're going to take as the investor, the investors who are left buying the bonds,

they're going to take the highest yielding bonds. So all the other bonds that are left in the marketplace, basically their yields have to come up to meet that market yield that all the other investors are demanding. So that's what happens when people start selling lots and lots of bonds. That's how bond yields increase very, very suddenly. And that's what we're seeing right now in the marketplace. It's a supply and demand thing, Right. Yeah, exactly. Exactly. I mean, just think about it. If you're like the one investor who's buying bonds and you've got a hundred different investors,

Joe (06:02)
It's a supply and demand thing, so there's a larger supply and not as many people buying.

James (06:14)
that are now trying to sell you their bonds, you're gonna take the best bond. And the best bond, everything else being equal, especially if they're all, you know, exactly the same type of bond, you're gonna take the one with the best yield, with the highest possible yield. And so that means if this guy's got a bond yielding 10%, and everybody else is yielding like 2%, 3%, they're all gonna have to cut their prices and change their yields basically to match that market yield, that 10%.

just to try and entice you to buy, or they say, no, I'll give you 11%, I'll give you 12%, I'll pay you 15%. So the yields keep going up because they have to, because they have to entice investors to take their hard earned savings, their hard earned capital and buy those bonds. So that's basically what happens, right? And that's the reason why bond yields rise very suddenly is because there's a sudden surge of people selling their bonds and not that many people left over to buy bonds.

So it's a major supply and demand imbalance.

Joe (07:12)

Is this just the thing where everybody needs to sell whatever they can when the markets crash to cover their leveraged trades? Because that's what happens with gold, right? When the stock market crashes, even if gold is eventually going to go back up, it initially takes a dip because people need liquidity. So would the same thing happen with bonds?

James (07:30)
Right. the first days after

liberation day, right, we saw the stock market crash and then crash again the next day. Right. And so what happened? Everything went down, everything, including gold. And a lot of people are like, wait, what's happening to gold? Well, like people sell everything. And a lot of reason why is because people are leveraged, right? They're trading on margin. So you have these big funds. mean, you you might log into like your Schwab account and you have like, you know, maybe you get like one to one, you you put in a thousand dollars Schwab loans you a thousand dollars.

big funds, they can get five to one, six to one. mean, you know, it depends on the trade. And so a lot of these funds are very heavily leveraged. And so all of a sudden when stocks fall, especially as much as they are, these funds will sell everything they've got. They will sell their gold positions. They'll sell whatever they've got just so they can sort of cover their loan loss so they can cover their margins for their stock trading. Right. But then what happened, right? What happened was, and a lot of people obviously are selling,

A lot of people sell, they sold their stocks on this first couple of days. And those first couple of days, the bond market did what it normally does. The bond market is the safe haven. So people pulled their money out of stocks and they put it into bonds, right? Because all of a you sell, you've got, that the capitalization, the stock market capitalization fell like $6 trillion. And so what do people do with $6 trillion? Well, they took a lot of that money. Some of the people put it in the bank, but a lot of people bought bonds.

Because that's the asset class. There's very few asset classes that can absorb massive capital flows. The bond market can, not the whole $6 trillion. But a lot of that money went into the bond markets. As a result, the first sort of day or two after liberation day, we saw stocks go down and bonds go up, right? And so what ended up happening was as the, when the bond market increases, it basically meant that yields were falling because there was more people buying and fewer people selling.

So the supply and demand imbalance like we actually worked in favor and bond yields fell. And the government looked and said, this is great. This is great. Bond yields are getting cheaper. It's getting cheaper for us to borrow. This is great. And then what happened, right? All of a sudden, after the weekend was over, bond yields started skyrocketing at rates, at a speed which we have not seen in decades. The 30 year bond, US government bond, the 30 year US government bond increased

a rate we haven't seen since like the early 1980s. And these bond yields, they're not supposed to move that rapidly so quickly, so much so soon. And to see that traders have been around for a while go, my God, this is nuts. The 10-year treasury, which is another really, really big one, moved so quickly. And people are looking to go, there's something going on here. There's something going on.

Joe (09:51)
Mm-hmm.

James (10:11)
At first, you'd think like, how is this possible? Because then again, that supply and demand imbalance worked in that direction. Now there's more people, there's way more people selling than buying. So what does that mean? It means there's a lot of people that are shorting the bond market or they're selling their bonds and you go, okay, well, who could be doing this? Who could be responsible for this? Well, if you'd ask that question on like Monday or Tuesday, the answer could have been lots of people. It could have been a bunch of Wall Street funds.

that were expressing their dissatisfaction with the Trump administration in the same way that big funds, big investors, the bond market back in 2022 expressed its dissatisfaction with then British Prime Minister Liz Truss. Liz Truss was British Prime Minister, the shortest span prime minister in history. And she announced this economic plan. The bond market didn't like it. They said, no, the deficits are going to be too high. I'm out. And so everybody started selling their British government bonds, called it guilt.

pound went into freefall, British government bond yields went through the roof as a result because there was lots and lots of selling people were dumping their British government bonds and bond yields went through the roof. They call this notion the bond vigilantes. It's like the bond vigilantes, you know, going out and kind of putting the government in check and it worked. In the case of the UK, the prime minister resigned, the chancellor resigned, they had to form a whole new government, everything was, the whole thing was a disgrace. And

You could think maybe that's what's happening in the US. Maybe the bond vigilantes are rising and they're out rebelling against the federal government here. But I don't think that's the case. And the reason why is because, you know, you know, middle of the week when all of a they said, well, guess what? We're going to have a 90 day pause. And then what happened? Stock shot through the roof. And what does that mean? Like all those hedge fund guys would have been going and buying stocks. So they would taken the money out of the bond market, buying stocks. But what happened?

Bond yields kept rising, which meant that somebody was still selling bonds. Somebody was still dumping bonds. So it's not the Wall Street guys, because the Wall Street guys, all their money, they were busy buying stocks. They weren't focused on the bond market anymore.

Joe (12:19)
Well, weren't they taking the money out of the bond market, though, to put it into stocks?

James (12:24)
But somebody was still selling like crazy amounts of dumping, crazy amounts of dumping. And there's only so many entities that are really at that point capable of doing that. And so you would think another possible solution would have been, well, maybe it was a disgruntled foreign government. And again, if you'd asked the question on Monday, you'd think, well, maybe it was France, maybe it was Germany, maybe it somebody that owns hundreds of billions of dollars worth of treasuries that are dumping lots and lots of treasuries all at the same time. And so maybe that's

Joe (12:28)
more than they were putting into the stock market.

James (12:53)
Maybe that's who it would have been. Right. But then all of a when they announced this 90 day reprieve, you go, well, it's not going to be Germany. It's not going to be France because now these guys are they're on the cusp of a deal. Right. So why do they want to anger the United States by dumping their treasuries at a time when there's a deal on the horizon? Right. Now the US says, oh, you're an adversary. I thought you were my friend. Now we're going to we're going to we're going to keep we're going to sanction you. We're going to keep terrifying you. So it just doesn't make sense that like France or Germany would be doing that.

Joe (13:07)
So the US sees them continue to.

James (13:21)
And at the end of the day, when you start eliminating all the possibilities, there's really only one disgruntled foreign country that remains and that's China. Because China has the means, right? They own a couple trillion dollars worth of US government or US agency debt. They've got a couple trillion dollars of the stuff on their balance sheets. People's Bank of China owns a lot of it. The government owns a lot. They their sovereign wealth funds, all their corporates, all their big Chinese firms. mean, all these guys, they all own US government bonds or US agency debt.

And so these guys have so much of it. So they could easily sell $100 billion, $200 billion and still have so much of it remaining. But they'd be able to sell enough to move the bond market, drive yields higher. And in doing so, send a message to the Trump administration, say, we can hurt you. Look at this. Look at this. This is nothing. This is nothing. This is just a little bit of our ammunition and we can hurt.

We can drive yields higher to rate you haven't seen in decades, we can hurt you. So watch out, watch your step. That's the message. That's the message. the other, of course, of course, but that's what warfare is. All warfare is I'm gonna hurt myself and I'm gonna hurt you, but I'm gonna hurt you more. At least that's the assumption. Every battle plan is.

Joe (14:26)
And would they be hurting themselves at the same time and diminishing the value of their own?

James (14:39)
my guys are going to get killed, but I'm going to kill more of your guys. There's no, there's no war in the history of the world where, where some army has zero casualties and completely decimates their opponent, right? That just doesn't happen. Everybody loses in a war. Everybody loses. And the Chinese know that, right? The Chinese know that. And so they also know though, that they can say, well, we can spend a little bit of our ammunition here. Their ammunition being their stockpile of treasuries, they can start dumping. And they know that

financial investors, traders, speculators, algorithmic systems, high frequency traders, all these guys, they're all going to pile on. So if all of a sudden you've got a big movement, somebody's dumping treasuries and yields are going up, the algorithmic traders, I mean, this is not even human beings involved, the algorithms are going to pick up on that and they're going to, oh shit, treasuries are plummeting, yields are going up, we got to get on this too. And so all of sudden, now you're going to get some Wall Street investors, you're going to get some foreign investors.

I was reading that even Japanese investors start selling their Treasuries. And of course, that's part of the momentum trade. How many times do we see this play out with crypto? Crypto prices go up, up, up, up, up, and all of sudden, everybody starts piling on that bandwagon. It works the same way on the way down. Bonds start falling. Basically, bond prices and bond yields, when bond prices go down, bond yields go up. So bond prices start plummeting, bond yields are going up. People pile on that bandwagon too.

So China is the one that sets the, you they strike the match and they set the initial fire and everybody else is just fanning the flames, jumping onto that bandwagon. And so it makes yields go up even more, makes the bond prices plummet and China knows that.

Joe (16:17)
And once China pulls all this money out of the bond market, they have to put it somewhere though. do we have any indication of where that money would be going? Are they investing it?

James (16:24)
Yeah, it's

actually funny and I got to give credit where credit is due. I hadn't actually given much thought to that. I was just looking at the implications for the United States going, man, this is a big deal. You got a country that's $36 trillion in debt, spent $1.1 trillion just on interest last year, and now you've got bond yields surging, which is going to make obviously that interest bill even more expensive for the United States and that bond yields surging at a rate we haven't seen in decades. That's a big problem for the United States. And we wrote about this a couple of times this week.

And Peter called me yesterday afternoon, Peter Schiff. And he said, hey, man, I think you're totally spot on with this. And he said, he said, I've been looking at this too. And he said, I think that China is buying euros. And I thought, holy shit, that's right, man. I hadn't even thought about it. But Peter and I, Peter and I talked about it for like an hour yesterday afternoon. And I think he's right because if you're pulling your money out of dollars, right, when you're selling treasuries,

What do you get in exchange? You sell your Treasuries, you get dollars. And the Chinese, their whole point is they're trying to sink the dollar, they're trying to sink Treasuries, they're trying to sink the US government. So they want to get rid of the dollar. So what do they do? They buy another asset. And what's one of the only assets that they can buy out in the open market where there's enough volume and enough capacity that can absorb all those capital flows? It's the Euro. So they took all those dollars and they bought Euros. What happened to the Euro?

Went to the fricking roof, Went to the roof. mean, remember the euro was almost at parity back in January. You know, and it's like what a dollar 11, dollar 12, something like that. I mean, it surged so much dollar eight, dollar nine, dollar 10. Boom, huge gap up, huge gap up. And that's something that, I mean, it's a major move, especially for major currency. And the reason why is because somebody's selling treasuries, driving yields up in exchange for selling those treasuries.

Joe (17:53)
Mm-hmm.

James (18:15)
They get US dollars, then they sell those dollars and they buy euros. Now, what do they do with those euros? They're buying European government bonds. They're buying German bonds, they're buying French bonds. And Peter's view, and he might be right about this, is that the Chinese are basically trying to cozy up to Europe now, which is very classic art of war, divide your enemy and all. They're cozying up to Europe, they're trying to drive a wedge between Europe and the United States and they go into Europe and they're saying, listen, we'll prop up your currency.

which is good for you because that's going to make your imports cheaper. That's going to help you keep inflation in check. We're going to prop up your ridiculous government bonds. Germany announced this, we're going to have this debt bonanza. We're going to have a trillion dollars in debt, trillion euros in debt. So we're to go and beef up our defense sector and all stuff. And China's saying, hey, we'll buy those bonds. We're selling our US government bonds. We'll buy your European bonds. So we'll finance all of your government expenses. We'll prop up your currency. We'll do all these great things for you.

We're not going to threaten you with tariffs. We're not going to all these ridiculous things. All we ask in exchange is you buy all of our useless trinkets that we're manufacturing in our factories because the US isn't going to buy them anymore. We got to sell them to somebody. So we want you to buy all of our useless trinkets and we'll prop up your currency and we'll buy your government bond. And if you look at the data, that actually seems to be happening right now. And I think Peter might be right about it.

Joe (19:29)
But it's

also a little interesting though, because then the dollar falls, which is kind of what the administration wanted, because then that allows other countries to buy more US goods. So that trade deficit that they keep talking about would even out. So in the sense, wouldn't China be helping Europe buy US goods?

James (19:51)
Yeah, they look, they might be. And I think I don't think this is what anybody wants. Right? Nobody, nobody was sitting around. mean, nobody's around last year going, man, I hope we have a trade war. Like it's just there. That was that was said, said no central banker, no head of state anywhere in the world last year. Okay. Nobody wanted this to happen. But I think if you're China, you're looking at this going, you're there. The Chinese economy is already on the ropes was already having problems prior to this.

And now these guys are going, shit, like all of our factories are to shut down. We're to have lots and lots of unemployed workers. You've got a very precarious sort of social situation where it doesn't really take very much, you know, for, for Chinese people to get very disgruntled. mean, the whole thing is they said, all right, we'll give up all of our freedom, but in exchange, you have to at least give us economic prosperity. So if that economic prosperity goes away because of a trade war, the CCP has got some big problems. So they'll look around going, well, what's our plan B? We don't really have one.

So now they're very hastily trying to come up with a solution, which is, let's jump into bed with Europe. It's a big consumer market, hundreds of millions of people there. Maybe we can sell our useless trinkets to Europe and in exchange, we'll take our money out of the dollar because we're also afraid of how the US is going to escalate against us. And so what are we going to do here? We've got to take our money out of the US. We're going to give it to Europe. We're going to do all these things. Let's see if we can make a deal with the Europeans. It's a very sort of hasty plan B.

but for the Chinese, it's better than no option at all. I think the Trump administration, by the way, probably is probably gonna view it that way, say, hallelujah, the dollar's getting weaker, which for them is what they want. They view a weak dollar as a good thing, even though if you look at it from an economic, from a macro perspective, a weak dollar does invite a lot more inflation.

Joe (21:14)
In-

Now, from the Europeans perspective, are they gonna get want to get in bed with China? Because I look at this and the news I saw recently was that there's Chinese soldiers in Ukraine fighting for Russia. Russia is the big bad guy that Europe thinks is gonna invade all of Europe right now. And at all costs, they need to fight against Russia. So wouldn't they look at China and say, no, thank you. Where our biggest concern right now is Ukraine and we don't want anything to do with you.

James (21:57)
Yeah,

I think you're right. mean, does anybody really trust China? Does anybody really trust the CCP? No chance. No chance. I think if you're Europe and you want to play it cool, you go, yeah, sure, we'll take your money. And you sort of play both sides. You make a deal with the US, you take the Chinese money, and you just kind of keep doing your thing, right? You do the best you can for Europe without making any kind of exclusive deal with anybody. If you're smart, that's what you do. And Europe is actually in a pretty good position right now.

because of this, they're getting lots of capital inflows, their own money's coming back into Europe. But I don't think anybody trusts China. With respect to this issue in Ukraine, yeah, they supposedly found Chinese soldiers. China obviously denied us, well, we don't know anything about this. But I mean, nobody believes that. If you're China, when you think about it, of course you're gonna send soldiers to Ukraine, because you're anticipating at some point here, especially now, there could very well be a war, whether it's between China and Taiwan.

or China and the US or China versus the US and Taiwan. There could very well be a war and China doesn't have any war experience. They just don't. The US has lots of war experience. mean, there's there's hardly been a time. I I remember when I was at the academy, was like the Gulf War in early 1990s. Then there were all the peacekeeping missions. Then you had the war on terror. All these things we were sort of studying, preparing for all these different conflicts. They get into,

chasing around guys in caves, counterinsurgency warfare, all this stuff. The nature of warfare changes, you know, every sort of 10 to 20 years. Now the nature of warfare, and I think, you know, if there were to be a war, the warfare in Ukraine is obviously it's cyber, it's drone warfare, it's all these different things. A war between the US and China is gonna be a lot of surface naval warfare, naval warfare in general, cyber, hypersonic missiles, and obviously drone warfare.

as well. And I think the Chinese are out trying to get real world battle experience and bring some of those lessons back to China to give themselves a leg up because they're looking at the US military and the Defense Department saying, guys don't really have necessarily as much experience in real time drone warfare. And so let's go and get some of that experience to give us a tactical advantage against the United States in the event of an armed conflict. you know, it's clearly happening. I don't think

And I but the bottom line is, I don't think anybody trusts the Chinese. I don't think anybody trusts the CCP. I don't think Europe isn't if they're to play it cool. If they actually want to be smart. I don't think a lot of smart leaders in Europe, but if they actually wanted to be smart for a change, they would take the Chinese money, they would they would sell the Chinese all these ridiculous bonds. And then they would just go about their business doing what's in the best interest of Europe, not what's in the best interest of China or what's in the best interest of the United States.

Joe (24:37)
There's a lot of moving parts there. what happens from here? What do you think is going to happen next? Escalations with China? Getting back together with Europe?

James (24:45)
Yeah, I was telling you guys yesterday,

mean, I was telling you guys yesterday, there's been a lot of talk over the last couple of years, ever since the war in Ukraine started. And people were saying, oh, we're closer than we've ever been to, you know, World War III and all that stuff. And, you know, to be honest, I was never really too worried about that. I was never really too worried about it because I didn't buy the motives, didn't really buy the history of it. I mean, clearly it was, you know, clearly the war in Ukraine.

you know, Russian aggression, all these things. I mean, there's clearly more of a chance of conflict than there had been before, but I didn't think it was really that high. Now I'm actually a lot more concerned about it. And the reason why is because history is very, very clear. I mean, the situation in Ukraine, that was something that didn't really have anything to do with the United States directly in terms of its direct interests, et cetera. Now you've got something that directly challenges the United States and directly challenges China.

That wasn't the case in 2022, 2023, 2024 with the war in Ukraine. And history is very clear on this point that trade wars can escalate into economic wars and economic wars, which is what I think we're clearly in now is you've got China now deliberately trying to hurt the United States by dumping treasuries. That's not trade war, that's economic warfare. And economic warfare very quickly escalates and can quickly escalate if history is any guide into limited war and full blown.

I mean, this sort of stuff happens. I'm not predicting there's going to be a war, but what I am saying is there's clearly now a greater risk of that. And I'm not saying it's so likely, but it's much greater risk than there has been even, you know, with the war in Ukraine, if you go to look at 2022, 2023, there's actually a far greater risk of real war now because you've got vital economic interests of the world's two largest superpowers that are now being threatened mutually by one another.

And if history is any guide, that is a very well-paved road to full-blown warfare. And we're already now beyond trade war, beyond trade dispute, beyond trade war. We're now in economic war. And in economic war, what would we see from here? Well, you could see expropriation of assets. Chinese assets or assets in China owned by US businesses, assets in the US that are owned by Chinese businesses, the Chinese government, some of these get expropriated. You start seeing the federal government freezing

Chinese government assets, selectively defaulting on Chinese-owned treasuries, Chinese-owned agency securities, the Chinese government throwing US business executives, US citizens in jail. I mean, all sorts of things. They say, oh, this guy's a spy, that guy's a spy. They start throwing people in jail. I mean, these things can escalate very, very quickly. They shut, they close, they eliminate visas, they throw people out of the country. And it's just so easy for these things to escalate. And then all of sudden the Chinese go, oh, well, then we'll just take down your power grid.

You know, and they, they, the cyber attacks start all these different things that start taking place and little by, you know, all of a the, the hot air balloons over your US military bases start coming in and, then you got some drones and then you got what? And little by little, it's just some shooting starts, some shooting starts, right? And so this is, this is how these things can very quickly spiral out of control. I'm not saying that's like for sure what's going to happen, but again, if history is any guide, trade wars can become economic wars and economic wars can very easily.

Joe (27:36)
Thank

James (28:00)
become actual real shooting wars, conventional wars. even though I think it's more likely that there's not going to be a war, it's certainly the chances that I think are much higher than they have been, even though the last couple of years people go, oh, War III is going to happen. You this is now you have the two largest superpowers on the planet directly threatening each other's vital economic interests. And I think one of the big ones is going to be, I think, one of the canaries in the coal mine is going to be if China

imposes pretty severe export controls on rare earth minerals to the United States, which is a vital economic resource that the US needs. You know, the US has a lot of things going for it. It's got the farmland. got the US has some of the largest freshwater supplies in the world. It's got so much great technology and innovation. It's got energy. It's got, know, the cheapest energy in the world is US natural gas. It is literally the cheapest energy molecule on the planet. All these things China has to import so much, so, much, but they got a lot of rare earths, man.

That's a vital economic resource. so that's a canary in the coal mine. And so we can certainly hope that cooler heads prevail. But I mean, there's a lot of ways that this can escalate. And all of these are frankly are destructive for the world economy, for the US and for China. We can talk about maybe another time. Sorry, we can talk about another time maybe how there it's possible that there actually is a method to this madness that there actually maybe is a strategy here where the US is going out of its way.

Joe (29:11)
Well, and you can art.

James (29:22)
to try and isolate the Chinese, to try and hurt the Chinese and benefit the United States. And there is a pathway for that that we can talk about another time, but you know, boy, there's a lot of risk here.

Joe (29:33)
I was just going to say the biggest concerning thing is that US diplomats in China can't have Chinese girlfriends anymore. That was the latest thing that we talked about.

James (29:39)
Yeah, exactly. Exactly. No, that's a real thing

though. That's that was the guidance that just came out yesterday is no, no more, no more, no more sex in China.

Joe (29:45)
Well, yeah, it was, right.

And it officially hasn't been announced. It was just the people on the ground were reporting that this was a thing they were told. But it is the first time this has really been a strong directive since the Cold War, because they had these policies, obviously, for Russia in 1987 to stop the spies from, right.

James (30:07)
Right. You can't have a Russian girlfriend because she's probably a spy. Now you can't have a Chinese

girlfriend because she's probably a spy. That's going to be what the, you know, that's going to be what the, you know, the kind of the official stance of the federal government is a little bit creepy. What they were saying was, well, if you're ready, if you already have sexual relations with some, some, some, Chinese lady, then, know, you have to bring that to your boss and your boss has to approve the ask your bureaucrat. If you can continue having sex with your Chinese girlfriend. Yeah, that's a, that's an odd position to be.

Joe (30:27)
Ask your bureaucrat boss.

Yep. And you can give her the permission

slip with some flowers. It's very romantic. All right. Well, thanks, James. I appreciate the insights.

James (30:37)
Yeah, there you go. So, okay, man.

All right. Take it easy.