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An independent and profitable state of mind.

Friday, August 25, 2023

SL: Elon Shrugged (and I Moved to Cash)

Dear Fellow Expat:

With momentum negative, it's a good day for a haircut, a tall drink, and a trip to the beach with a great friend from college.

In the world of writing, we're advocates of this idea called the "Power of One." You write about one specific issue. But today is not the day for this.

We have three things to address today.

And we'll keep them brief.

Mr. Powell Speaks

This afternoon, markets did tick a bit higher after Fed Chair Jerome Powell spoke from Jackson Hole. The markets bounced off the third-deviation band at 11 AM, and it appears we'll run solid for the rest of the day.

Today's conference from Jerome Powell is less about what he said... and more about [what he did not say](#). He discussed the Fed's dual mandate and his desire to get inflation back to 2%.

But he did not mention Japanese yield curve control efforts that could hammer U.S. bonds. He didn't mention China, which remains a massively bearish force in global markets due to a debt-deflation spiral. He did not mention duration risk in the bond market - the very thing that should bring the 10-year bond to 5% - and, in the process, hammer the equity markets.

We have a global liquidity challenge around the quality collateral, and we have "safe assets", creating a huge risk factor.



Garrett Baldwin
Financial Adventurer

Index Momentum

| | |
|---------|-----|
| S&P 500 | RED |
| Nasdaq | RED |
| Russell | RED |

Remember: Crises usually center on "safe" assets like land, housing, duration bonds, and assets that people need.

Cryptocurrency won't tank the markets.

The "risk-free" 10-year bond could.

Elon Shrugged

I'm still trying to understand why the U.S. government is suing Elon Musk for not hiring enough asylum seekers at SpaceX. This is all a brewing problem as Musk demands payment for his services around SpaceX - during the ongoing support of Ukraine.

The Ivy League lawyers suing him have zero understanding of commerce, and a recent article in the *New Yorker* by Ronan Farrow demonizes Musk for demanding payment at a time when the [Pentagon is steering billions into our defense](#) industry.

Say what you will about Musk. He defends the First Amendment more than anyone in government. The First Amendment comes first for a reason. I'm willing to let British soldiers stay in my house (in violation of the Fourth Amendment) if I still have the right to tell them to *piss off*. That's why I'm on his side.

But consider this. What are the things that are massive problems in the world today?

The U.S. needs manufacturing...

The U.S. needs to address climate change...

Los Angeles traffic is horrible - as is every major metropolitan area.

The U.S. needs a more diverse energy grid...

The list goes on and on...

But Musk is on the front lines. He's literally addressing all of these things.

And what is the government response? Sue him because he wants to get paid?

We are living in the plot of *Atlas Shrugged*.

And it proves - again - that the government is not interested in solutions. There's too much money and graft in constantly pointing them out and never solving them.

I dare these people to keep it up... so that we know - once and for all - that there is no reason to be an entrepreneur in the Banana Republic anymore.

And Finally

China is a problem. I don't think that people really understand right now how severe this situation could get. I would look back to the market selloffs of late 2015 and 2018 as clues of what may soon come without dramatic intervention by central banks.

Nothing is working in China right now. In the last week, the nation's central bank cut interest rates. They ordered that companies use available cash to buy back stocks.

They ordered banks to sell the dollar and buy the yuan. They also announced a "National Team" bid to try to enhance collectivist ideology to have people protect the currency.

But, as we know, they've already done this before - and funds got smoked the last time. So, logically, investors have moved money offshore very quickly, and China is under severe stress.

We are in a negative momentum environment that has two catalysts. Over the last 12 years, we've had many negative momentum events - but they have all been centered around one specific issue.

This is different. We have China... and a brewing bond crisis in the United States. As I continue to tell people, let's see how it plays out. But I'm largely in cash and only playing the energy sector for now.

If energy sells off, we have a problem. It's the only sector that has held up through this crisis. A drop in global energy prices would signal a major demand issue in China... and broader questions about money moving from an industry with strong cash flow (like Permian Basin oil in Texas) to bonds.

But even then, bonds are under stress.

Simply put, there's nowhere to hide except in cash.

Remember, in [negative momentum environments](#)... cash is your best friend.

Stay positive,

Garrett Baldwin