



The Perch Pod Episode 49

What is Putin Trying to Prove, Inflation, etc. with Marko Papic

Jacob Shapiro:

You're listening to the Perch Pod, from Perch Perspectives.

Jacob Shapiro:

Hello, listeners, and welcome to another episode of the Perch Pod. As usual, I'm your host. I'm Jacob Shapiro. I'm also the founder and chief strategist of Perch Perspectives, which is a human-centric business and political consulting firm. Joining us on the podcast is one of my favorite guests. It's cousin Marco Papic, who is a partner and chief strategist at Clocktower Group.

Jacob Shapiro:

Note, listeners, that we recorded this on Friday, January the 21st, around 1 PM Central. We discussed Russia and Ukraine at some length, and also some things about the Fed. I don't think that will be overtaken by events, because it was fairly high-level, but just so you know, a couple of things might have happened in between when we recorded and when you listen to this.

Jacob Shapiro:

Otherwise, as always, check us out at PerchPerspectives.com. You can write to us, info@perchperspectives.com. Rate the podcast. Leave a review. Subscribe to it. And I'm writing a monthly column over at Lykeion. Check it out if that is of interest to you. Otherwise, cheers. Stay warm. Stay healthy. See you out there.

Jacob Shapiro:

Joining us today is Chief Two-Handed Economist at Past Expiration Date Consultants Incorporated. Marco, it's great to have you back on the podcast, cousin.

Marco Papic:

It's awesome, cousin Jacob. What's up, man?

Jacob Shapiro:

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Jacob Shapiro:

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Marco Papic:

That is awesome.

Jacob Shapiro:

Not bad.

Marco Papic:

Yeah. That was great. You just hit the zeitgeist. And you know, it's interesting, because a lot of the crypto investors will need the moonshine, given that you just dropped your own 40,000 as we record this. So, you're just rubbing it in at this point.

Jacob Shapiro:

I am, but careful, this is coming out in probably about two weeks, and for all we know, bitcoin will literally go to the moon in that time period. I've given up trying to predict it. Oh, hold on, I have to make that space here. Okay. Speaking of things, two weeks from now, the situation in Eastern Europe might be different, Marco, but I feel like we would be remiss if we didn't start chatting, at least without mentioning a little bit about what's going on with Russia and Eastern Europe. I saw just today, Lavrov is saying that Russia wants NATO troops out of Romania and Bulgaria and everywhere else, apparently. You got any thoughts that the folks should keep in mind, in terms of Russia, as we go forward the next couple weeks?

Marco Papic:

Yeah, no, I'm also interested in what you're thinking, as well. I mean, you and I, we cut our teeth together at Stratford, kind of looking at these things. I've spent a lot of time on Eastern Europe early in my career, obviously on Serbia, so I was just assigned by default to cover these things.

Marco Papic:



First of all, I think, let's talk big picture for a second, because we haven't done this in a while. Big picture here, I think, is that this has very little to do with NATO expansion. I just, I don't believe the Russians. They can't be stupid enough to believe that anybody in the West, other than Blinken and Biden, want Ukraine in NATO. The 2008 Bucharest Summit that they keep referring to as the moment when Georgia and Ukraine were made. What? No. Germany literally showed up to that summit and told the Americans, "No way. No way are we letting Ukraine in."

Marco Papic:

And this is... No. Lavrov and Putin don't have misinformation here. They know what happened. There's no... I mean, I will show up on this podcast, I'll eat my 80-page book if Ukraine ever joins the EU or NATO. I'll say that again. And by the way, I'll give you that bet in perpetuity. So, when we're both like 84 years old, I will show up on this podcast, and I will eat it for your audience.

Marco Papic:

Because, one, 43 million Ukrainians are not going to join the common labor market of the EU. That's not going to happen, post Brexit, post like, a Nord, post whatever. Second, there's no way that a country as large as Ukraine, with as antagonistic relationship with Russia, is going to join an organization that has, as one of the sort of soft demands for membership that you don't have border disputes.

Marco Papic:

And what was funny to me was that the White House came out and said, "No, it's cool." It's like, you don't get to decide, bro. The United States does not get to decide. Not now, not ever, quite frankly, but especially not in a multi-border world, where Germany and France are going to be like, "No, man. Unanimity is required for membership."

Marco Papic:

So, Russians know all of this, and therefore we have to ask ourselves the question, like okay, if it's not about NATO, and if it's not about some sort of mythical backstabbing, where some promise of not expanding NATO was broken. What is this about? And I have a pretty callous answer to that. Glib, callous, whatever you want to call it.

Marco Papic:

I think Putin just realizes that he messed up in 2014. He took away Ukraine's Texas and Florida, and now he's pissed that he can't get a GOP candidate elected. I'm obviously making an extended metaphor here, but he took Crimea, half half of Donetsk and half of Luhansk out of Ukraine. These people no longer vote in Ukraine elections, and he's realizing that the position of Ukraine as a sovereign, non-Russian sphere of influence state is now also ossifying.

Marco Papic:

I think there's also other things going on domestically. Popularity is also reaching that point where he starts itching to debate other countries, and it seems like a reasonable moment to poke the West. I also... So, that's kind of a petty, and by petty, I don't mean normatively. I'm not calling Putin petty, I'm calling him petite. This is the petit in geopolitics. Petty geopolitics.

Marco Papic:

The grand geopolitical point here is, I think that, and this is where I think Putin is doing the right thing, I think he's just trying to see, what's West's price for Russia? I think that's what he's trying to do. So, the petit geopolitical reason for messing with Ukraine is like, hey, I've got to save face. I messed up in 2014. Okay, let's see what I can get for it.

Marco Papic:

I think the grand geopolitical issue is that I think he, throughout this year, in April they put those troops in Ukraine on the border. Then there was the Belarus migration crisis, which by the way, was Moscow telling Europe, "Hey, you believe in climate change. We believe in climate change. There will be 30 million central Asians showing up on your doorstep in 20, 30 years, when the Caspian Sea dries up." So like, "Hey, by the way, we also are border guards here." That was like a little notice, message, from Friday.

Marco Papic:

And then, there was also the Nord Stream 2 issue. I think that this year, Russia's just trying to poke at the West and say, what is your offer to flip us from China? Can we be the China of the '70s? Because look, we're in the middle. You guys seem to really hate the Chinese. China's really concerned about you guys. What is it going to take for you guys to kind of... Like, show us the money, you know? What do we get if we're the pivot player?

Marco Papic:

So, I think those are the two kind of issues going on here, and it has nothing to do with what NATO expansion and the troops in Bulgaria and Romania. I mean, come on, what troops? Patriot missile batteries? Whatever. I used to write about that daily, back when you and I were working together involved in that analysis right now.

Jacob Shapiro:

Yeah. There's two things I want to ask you there. Do you think the Russian people really give a frack? I would even say that they don't want to deploy Russian troops abroad right now. I would think it's the same as like, the Americans don't want their troops abroad. Why would the Russians want their troops abroad, too? They just brought everybody home from Syria. They're running around in Africa doing god knows what. Why do they want to try to roll tanks to Kiev in what will be... I mean, I don't think they'll win. I don't think they have a shot. Is it really going to help his popularity that much?

Marco Papic:



They have, first of all, they have zero... Anyone who's listening to this, there is zero percent chance Russia wins if it invades Ukraine, okay? The Ukraine invented partisans, you know what I mean? This is their export, okay? It's big. It's large. And Russia has absolutely no history of winning offensive wars. In fact, every time Russia invades somebody else in a big way, their government crumbles. The Crimean War. And I'm talking about the 19th century, #HistoryFacts. I'm going back there. I'm going back.

Jacob Shapiro:

Yeah, yeah.

Marco Papic:

That led to the emancipation of the serfs, man. That was a huge loss for Russia, that caused massive domestic problems, because they got their asses spanked by the Turks. The second was the 1905 Russo-Japanese War. How did that turn out?

Jacob Shapiro:

Not so good.

Marco Papic:

They sent three fleets over, and the Japanese keep sinking them. And then finally, there was a revolution in Russia, where the Duma was basically given powers, right? That was the first kind of a democratic revolt that the Tsar had to allay the plebs.

Marco Papic:

Then, of course, 1917, the Bolshevik Revolution. I would argue Russia was the aggressor in World War I. I mean, part of the reason there was a revolt was because secret papers were revealed, where it showed that Russia was joining the war not to do fight with its fellow Orthodox Christian serfs, but rather to take colonial possessions of Austro-Hungarian, Central European territories. So, it was a war of expansion, and people got pissed, like, wait, we're dying in trenches in Poland and Ukraine because of what?

Marco Papic:

And then, the third, of course, most important, the one that I know Vladimir Putin knows, is the 1980 Afghanistan war. So, you're absolutely right. I think it makes absolutely no sense.

Marco Papic:

Now, do I have some sort of insights into what the Russian populace thinks? No, but I have heard what you're saying is kind of the general consensus. Unlike in 2014, when the media was selling a narrative in Russia that a bunch of Western Ukrainian Nazi sympathizers who were marching in Crimea to ethnically cleanse the Russian speakers, there doesn't seem to be as much of that today. And so, I think you're right. And by the way, I think Putin knows this.



Marco Papic:

So then, that leaves us with the other scenarios, though, which is a limited incursion into Dovzhansk to falsify the gains in Luhansk and Donetsk. That would be... And you know, there's a way to do that in which the markets get panicked. And what I mean by that, in 2008 Georgia scenario, Russian tanks were outside of Tbilisi. I mean, they went all the way. And there was a moment when a lot of folks thought that Russia was just going to annex Georgia. And that was just a head fake. That was just a little, hey, Saakashvili, let me just show you what we can do. And then they moved back and just ossified what was kind of de facto the case.

Marco Papic:

If they do that this time, there will be tanks outside of Kiev. Folks listening to this podcast will remember my name as a moron, like that Marco Papic, that guy was an idiot. Because the S&P 500's selling off, like holy crap. And then they pull back and just ossify what's already kind of a reality. So, that could be a scenario that's a limited incursion, but it's scarier than just a limited incursion.

Jacob Shapiro:

Yeah. Before we leave this topic, I feel like you brought up the topic that is all geopolitical nerds' favorite hypothetical conversation right now, which is this Russia-China-US triangle, who's going to become friends with who, and who's rallying to whose side. We had a Russian analyst on this podcast a couple of weeks ago, and he said something I thought was very flippant. He said something, I'm paraphrasing, it was something along the lines of, "As long as Russia has nuclear weapons, we're not worried about China," which was kind of a strange thing to say.

Jacob Shapiro:

Do you... you sort of alluded to the fact that maybe Putin wants to see what he can get out of the West, see what their price is for flipping. But is that really a good deal for Russia? I mean, China's a big problem for Russia, if that relationship goes antagonistic. The Russians also took some territory from the Chinese before they had their abortive war with the Japanese. So, I mean, do you feel like that's it? I would think that he wants to maintain neutrality between them, but maybe I'm not thinking five steps ahead.

Marco Papic:

Well, I think that... No, I think if China is what it is today, I think that Russia and China could work together very easily. But if there's a chance that China does become a regional hegemon, which I think most people probably assume that there is. I'm probably on the other side of the spectrum. I think China has a lot of problems that it has to overcome.

Marco Papic:

But if Putin has to assign some probability to that outcome, which he hasn't, because he's running a country, it's his responsibility to do so, I think he needs to also be worried about that. I mean, I Russia



has East Asian possessions, and I think that becoming China's petrol station is not necessarily superiour to what it can get from the West.

Marco Papic:

And so, I wrote a report in July. I actually posted it on my LinkedIn, so this one is a freebie for all your listeners, and for everyone else. And yeah, in July of 2021, I wrote a piece entitled, "Is Russia About to Flip Sides?" And the way I approached this is, I looked at the history. And the history of Russia is one where Russian leaders are adept enough at the geopolitical game of Risk, that they can kind of overcome their problems or their enmity and turn to their enemies specifically for acquisition of technology.

Marco Papic:

And the most interesting part of this story is how much US corporates cooperated with the Communist government in Soviet Union between the 1920s and 1930s. In fact, Stalin made a speech, and I quote here what he said: "The carbonation of the Russian Revolutionary sweep with American efficiency is the essence of Leninism." Great quote. It's such a great quote.

Jacob Shapiro:

Amazing.

Marco Papic:

Stalin, saying American efficiency is Leninism. And Russia has had these... Russia is just a very adept country. It doesn't have to worry about domestic problems, or hypocrisy or human rights records of its enemies, and it can just turn on a dime. And so, yeah, I do think that Putin is poking and seeing what he can get, which is a very smart thing to do. My question, though, is how qualified, how competent is American leadership today, to be able to catch on this? And the second is, how much does America care?

Marco Papic:

And this is something that a lot of people, I think, are missing right now, and especially your listeners, who probably lean mostly toward the US. Nobody's asking the question of, wait, isn't America kind of instigating a lot of issues today, like a lot of these risks? America is basically poking China with Taiwan. There's all sorts of things that the Biden administration has done that even the Trump administration didn't do when it came to Taiwan. And on Ukraine, you have the White House just saying total lies when it comes to Ukrainian potential membership. Now, American allies in Europe don't want to openly disagree with the US, but under the table, they're telling the Russian, come on, you're not entering.

Jacob Shapiro:



Well, no. Macron at the European parliament this week basically said, no, we're not with the US. Europe needs to come up with a solution. I'm done with this stuff. And it devolved into a fight about the French elections or something, but he's been very blunt, he wants none of it.

Marco Papic:

Okay, well, see, I didn't catch on that, because no one in America covered it. To my point.

Jacob Shapiro:

Yeah, yeah.

Marco Papic:

And I just think that we have to understand something. When America was in a unipolar world, when America was first amongst equals, when America was running the world, it had sort of a reputational benefit for making sure that everyone was in line. So, when America was the bully of the schoolyard, it wanted to pop everyone who wanted to start shit. I don't know if we can swear on this podcast.

Jacob Shapiro:

Yeah, we can absolutely. It is marked explicit for that reason, just for you.

Marco Papic:

Okay, just for me. Just for Marco. Okay. So, when America was running the "world," quote-unquote, there was this reputational point of having an order. Also, there was a material reason to have an order, because presumably, America crafted the world order to benefit itself. Obviously Trump's point was that that was no longer working.

Marco Papic:

Now that America is starting to realize, now that it's dawning on America that we're in a multipolar world, I would argue about eight years too late, but okay, finally American policymakers, it's dawned on them that nobody really cares what they say. No one's going to ban Huawei because America, under Secretary of State for South, West, East, North, South Asia shows up at your country and is like, "Ban Huawei." You're like, "No, sorry. We make money working with the Chinese. Oh, and by the way, your crap, your hardware has just as much spyware as anybody else's."

Marco Papic:

So, now that Americans have kind of finally realized, the folks in Foggy Bottom have finally realized that that's the case, that's a really important moment, because cognitively now, I think America no longer has an interest in maintaining order, and in fact, poking, being the guy in the bar poking somebody and saying like, "Hey, you know what Ukraine said about your mother? Hey, I heard Taiwan is going to... bought your girl a drink at the end of the bar." America is now in a position where I think American



policymakers realize, wait, this isn't our order anymore. Let's disrupt it. What are we going to do? We can do whatever we want. And I think there's a little bit of that going on in Ukraine, and in Taiwan.

Marco Papic:

And now the question is, are Russia and China sophisticated enough to look through this and say, I'm not going to go for provocations. I know what you're doing. You're trying to draw me into the ludicrously stupid endeavors that you yourself engaged in Iraq and Afghanistan. I know what you're doing here. You want me to do what you did in 2004 and onwards. And so, we'll see.

Marco Papic:

So, one hand, you could argue American policymakers don't know what they're doing, but on the other hand, you could argue that they are pure genius, and they're just starting all these fires that they can't put out, but they don't want to put them out.

Jacob Shapiro:

Yeah. That's the most optimistic spin on it I've heard. I don't think they know what they're doing. And they might be doing what you're talking about unintentionally, but I don't think-

Marco Papic:

Yeah, subconsciously.

Jacob Shapiro:

Yeah, subconsciously, sure. That's a great segue, though, because I was going to save this for later, but you also just wrote a piece about China, and you've already mentioned China, so we should probably just dive into China. And I don't know if you've had a chance to read Xi's big speech at Davos this week.

Marco Papic:

It was amazing.

Jacob Shapiro:

It was. It was amazing.

Marco Papic:

Amazing.

Jacob Shapiro:

And when I read it, I was like, is this what McKinley sounded like when he was giving speeches at the end of the 1800s, when the US was rising and wanted everyone to trade with them, and they knew they



had the entire world by the balls? It really feels like, to the uber capitalist of the world, he just wants everything to go that way. Why did you think it was amazing?

Marco Papic:

I mean, I thought it was amazing for a petit... a petty reason. I thought it was interesting because he was asking us not to raise interest rates. And so, I actually don't think this was a speech of McKinley. I think this was a speech of a leader who's actually quite insecure about his economy and his position in the world. So, I would take that side of that interpretation.

Marco Papic:

So, the piece that we published in China, called "China's Three Traps," or "The Three Traps of China..." Also on LinkedIn, by the way.

Jacob Shapiro:

It will be on LinkedIn, and we'll also have links to it in the podcast.

Marco Papic:

It's already on LinkedIn, yeah. So, it's there for you guys. It's a pretty long piece, and our net assessment of China. And to us, it's very important to kind of think about where China's going, and the irony is that while we're pretty bearish about Chinese economy, we're pretty bullish about the opportunity to invest in China. And that might be like, wait, what? How can that be?

Marco Papic:

Well, if we were really bullish about China's economy, and we thought that China was going to overtake the US, well then, there will be geopolitical complications between the two, because the US will not be able to leave it alone, and then we will have a complication, and then you don't want to invest in China. So, the irony here is that if you want to invest in China, you have to kind of have a relatively muted view of China's next 10 years.

Marco Papic:

And I think that China is really trapped by three things. First, Chinese geography. You can't get over the fact that 90% of its oil is imported via sea, most of it through the Straits of Hormuz. It's very far away from China. China doesn't have the power projection capabilities to deal with that. So, that's the first trap.

Marco Papic:

The second trap of China is the middle income trap. Chinese growth is decelerating. And a lot of analysts are ascribing that to COVID, zero COVID policies and so on. I'm not. I think a combination of demographics, but let's leave that aside, and particularly, household indebtedness. This is something that most people don't talk about when they talk about China. Even China bears, who love being bearish



about China, don't talk about the fact that households in China are now more indebted than American households.

Marco Papic:

So, if you look at household debt as a percent of disposable income, so not as GDP, as a percent of disposable income, Chinese households are actually more indebted than American. And this means that the middle class growth story, the dual circulation story that the Chinese policymakers and American policymakers think is the future if China, this idea that it becomes more mercophilous, more reliant on domestic consumption, that's patently false.

Jacob Shapiro:

Can I stop you there and ask you, is that because so much of Chinese wealth is tied up in real estate, and those households are taking on debt to buy real estate, or is there something else going on?

Marco Papic:

I think it's a lot of things. This all starts off in 2001. In 2001, the Fed remained overly easy because of geopolitical. September 11th happens. The Fed keeps interest rates lower than they should have been, because there was a fear that domestically, America would have political problems because of a massive terrorist attack, and that combined with deregulation of the financial industry leads to the housing bubble. 2008, the housing bubble blows up, and within 12 months, the American consumer disappears as a global growth catalyst, just disappears.

Marco Papic:

The Chinese policymakers were shocked. They were absolutely shocked how quickly the West turned towards hysteria. Turned away from juicing up households to spend. And so, in 2010, Chinese policymakers initiated, 2009, 2010, one of the most extraordinary credit fueled stimulus ever. From 2010 to 2020, for 10 years of the last cycle, China was the only game in town when it came to macro catalysts for growth. You would have wound your watch, Jacob, on China's total social financing, TSF, which is the broad measure of credit growth in China. Everything was correlated with Chinese TSF. Copper prices. Oil prices. Swedish equities. US 10-year bond yield had a one-to-one correlation with Chinese credit. What? Like, it almost didn't matter what happened in America, because America didn't exist, as far as macro investing. As far as macro investing is concerned, the United States of America cease to exist as a catalyst.

Marco Papic:

And so, throughout 2010 to 2020, China tried its best to deleverage and to stop, but every time they did, the entire global growth would slow down. So, they kept releveraging their households. So, yes, you are right, to answer your question circuitously, yes, it's the condos, but it's also, households were incentivized to buy cars. They were incentivized to put your kids in expensive tutoring agencies. They were incentivized to move. They were incentivized to buy second and third cars. All that stuff.

Marco Papic:

And we now are getting to a point... So, think of America and China. They don't like each other, but they're like Mom and Dad of the world. And so, at one point, Dad lost his job, Mom had to work hard. Now Mom is exhausted, now Dad has to work hard. And so, that's what happened over the last decade, and just like American households became overly indebted in 2008, Chinese did.

Marco Papic:

And that's a really big problem, because it means that they are reaching the end of their debt super cycle at precisely a very inopportune political moment, when they have bid up expectations with the middle class. So, ever more growth, and they're falling into this middle income trap. Which is why you saw last year, the shift towards economic disparity. Once Chinese policymakers realized the pie can't really grow as fast as they expected it, now they have to divide up the pie through income inequality fighting measures.

Marco Papic:

But to me, what that also means, and this is really important for geopolitical issues, it means that expecting China to become more domestically oriented economy, and therefore more geopolitically independent, is false. It's a false narrative. China's going to have to double and triple down on investment light growth and export light growth. Which is why Xi Jinping is making this speech in Davos: not out of strength, but out of weakness. Out of this concern that holy crap, guys, guys, inflation? Yeah, we get it, but do you have to raise interest rates? Because we kind of have to depend on your households pressing buy on Amazon.com for our economy, because I can't rely in releveraging anymore.

Marco Papic:

And then, the third trap of China is demographics. Many people talk about demographics. I don't want to do that, because we all know Chinese demographics are poor. But the reason I think that matters for geopolitics is because if China's going to have to maintain a high level of investment as a percent of GDP, at the same time that it grows old and their savings goes down as a percent of GDP, it means that we are probably in the early stages of them getting into a current account deficit. And countries that have a current account deficit have to finance it through external sources of capital, i.e. investors.

Marco Papic:

So, China is actually going to become more addicted, not just to export like growth, because of domestic indebtedness. Not just external sources of oil because of its geographical traps, but also external sources of capital. And so, I think that the US administration is cutting off capital to China at exactly the wrong time, because if China's going to become more addicted to foreign capital, you get it addicted to your own foreign capital, and then you have some leverage. You can show up in Beijing and say like, "Well, look, let's talk about issues X, Y and Z. After all, our investors are helping you balance your books."

Marco Papic:



And that's why I think that the next decade is not going to be a decade where China-US tensions dominate. This is a very counterintuitive view. No one on this podcast probably has ever said that, but my point has been always, the time to forecast US-China and their tensions was 10 years ago. That forecast was correct. This was the most important geopolitical issue for the next two years. I'm not sure it's going to dominate the next decade. It's going to be there, don't get me wrong. They're not going to suddenly start hugging and singing Kumbaya. But I think that we're in much more of a multipolar world than a bipolar world, and I think that China has these challenges it needs to overcome, and I think that China will tone down its geopolitical ambitions, as I would argue it has done over the last two years.

Jacob Shapiro:

It's funny, you and I kind of get to the same place, at least for the next 5-10 years, and you and I probably diverge after that. Because I'm with you on the... not sure about the export-fueled growth, but I mean, Xi Jinping, since the very beginning, has talked about L-shaped growth, and how he needs to have the dual circulation strategy, and yes, we need exports, but we also need to sell to domestic market. But he's never wanted to scare away investment. If anything, all these regulations and rules that everybody seems to freak out about every time they're enforced, that's China trying to establish rule of law so that investors feel more comfortable coming in. That's where I think it's going.

Jacob Shapiro:

But I also tend to agree with you, though, that I mean, for the next 5-10 years, it's sort of like Britain and Germany in the 1890s. Nobody's ready to duke it out yet. If China succeeds at all these grand plans that it has, then maybe 2030, 2040, we're talking about it, but for the next 10 years, sort of let the good times roll.

Jacob Shapiro:

But you brought up interest rates. Do you think the Fed's going to listen to Xi Jinping? I saw the ECP was already toning their comments down just today. But do you think the Fed's going to listen? Are they going to say, "Xi, this is not our problem?"

Marco Papic:

I think, so, that's the big question now in the macro markets. Macro investors are wondering, has something changed, where the Fed no longer has this mythical Fed foot? Where the Fed is just going to back off. It will definitely, I think, not care about what Xi Jinping says. Which I think is a problem, because Xi does have a really important point. We should coordinate our policies together.

Marco Papic:

And Chinese economy is important, because Chinese economy, if it's strong, it will lead to a sell off in the 10-year treasury market. Our yields are going to rise, thanks to China's strong economy, and our 10-year yield needs to rise to accommodate the front end yield increase, which is what the Fed controls. In other words, if the Chinese economy's not healthy, our long end of the curve, the yields don't go up, and



then we don't have room to raise interest rates on the short end. And then, what we get is an inverted yield curve, which means a recession is coming.

Marco Papic:

So, that's kind of where, yes, the Fed should listen to Xi. It won't. There's this #InflationSucks right now, Twitter hysteria, that inflation is the most important political risk out there, and as all Twitter hysterias, it is real until it isn't. So, I think in the short term, the Fed is going to ignore everything and just focus on being me. But I'm not ready to diverge from my mega fee of the Buenos Aires Consensus, this idea that we're in a populous era, where we're no longer following laissez faire tenets.

Marco Papic:

And my second point about that is that the US is the most populous country of all of the West in this world, and so I do think that there is still a Fed foot. The Fed will pivot away from caring about inflation, but it's going to be a much lower strike price on the S&P500. In other words, in the last cycle, you were buying on dips at a 10% correction. Maybe you don't do that this time. Maybe you let it run beyond just a 10% correction.

Marco Papic:

And that's why I've been bearish since the beginning of December. What's happening right now in the markets is very much what I expected. Actually, I got my face ripped off by the Santa rally, which I didn't expect. So, December was kind of like, oh my god, really? And then I just didn't change my view. And now we're experiencing exactly what I expected, specifically with tech stocks and bitcoin.

Marco Papic:

The Fed is showing its teeth, and it's showing its teeth because of this Twitter hysteria that inflation is the biggest political risk to Biden. Which I don't think is true in the long term. Recession is the biggest risk, and at some point, you're going to have to find a balance between being tough on inflation and not letting recession happen because you're overly tight. And I think they'll be conscious of asset price depreciation. So, 15-20% correction is perfectly normal, and in a way healthy in my view, because it allows the 10-year yields to rise. That's what needs to happen if they're going to start raising rates.

Jacob Shapiro:

Yeah. Did you see, Yellen was out today talking about how she thought inflation was going to be down to 2% of just this year? I thought that was...

Marco Papic:

Listen, I'll tell you this. It is 100% chance of that happening if we have a recession, and unemployment's at 10%. 100% chance that inflation will be down to 2%. Now, I've called inflation correct this cycle, so one of the first things I said when COVID happened was, look, we're going to have inflation, for a number of reasons, blah, blah, blah. We don't have to get into it. But the point is that I think they need



to decide what they're going to call it, right? If they consider victory 2% inflation, then folks, sell everything buy cash, we're going into a recession, okay? Because you can easily end inflation. It's easy. You just have a recession, then boom, inflation goes down.

Marco Papic:

But I don't think that's because of the Buenos Aires Consensus, which was fundamentally this idea that policymakers are so afraid of a political revolt in this country that they're going to be populist. I think that they're going to take as a victory just peaking of inflation. So, if inflation peaks at 6, 7%, and then goes sideways or slightly lower, they'll be like, "Oh, we're asymptotically approaching our mandate. We won!" And so, I think that that's where we're going to go, because otherwise, if they're truly set on getting to 2%, we've got problems.

Jacob Shapiro:

Yeah, I hear you. Which is also an excellent segue to one of the things we talked about the last time you were on, and that I wanted to check in with you about. Not just the Buenos Aires Consensus, but the race to zero, and sort of ESG things in general. And you talked about it the last time you were on the podcast, about how there was this kind of perfect storm of technology was advancing enough, and there was populism, and there were national security concerns, and capital was cheap. Those low, low interest rates. All of that conspired to make us this race to zero real, and how really this was going to be kind of a monumental cycle in the global economy.

Jacob Shapiro:

Are you pivoting away from that at all because the Fed is starting to get mean a little bit, or do you think this is just kind of a momentary burp, but then as we get to the course of the decade, your thesis is going to continue to play out?

Marco Papic:

Well, the key point of that thesis is that it's an inflationary cycle, right? So, the title of the report where I elucidated those things is like, "Geopolitics is Not Transitory." As in, hey, a bunch of egghead economists, a lot of things are transitory, but these big picture issues are not. And so, there's no way that it can raise rates and deal with it.

Marco Papic:

And so, I think that, again, I think that right now we're in a #InflationSucks Twitter hysteria. Everyone's talking about it. CNN's talking. Fox News is talking about it. Obviously Republicans are emphasizing it's because Biden's an idiot, right? Blah, blah, blah. But the truth is, the reason we have inflation is not just stimulus. The reason we have inflation is also the structural supply problems I've been talking about since the beginning of COVID, that precede COVID. And so, if you want to overcome them, you have to continue to incentivize CAPEX.

Marco Papic:



And I think that if the Fed policymakers don't know that yet, I'd be surprised, but they will pivot to that point the moment that their hawkishness becomes overly painful. And by the way, the BOE president did, like in September, when BOE delayed its rate hikes, that's precisely what the governor of Vancouver said. He said, look, I can't raise interest rates and fix trucking shortages. I can't fix natural gas shortages by erasing interest rates. It's like a cruise tool.

Marco Papic:

Yeah, so, the way to think about it is, when you have a big picture view, obviously it could be wrong. So, I could be wrong, and we have a recession at the end, end of story. My view is that we are in this Buenos Aires Consensus cycle, which is different from the Washington Consensus. We're not in a laissez faire world. We're going to have higher inflation. The policymakers will tolerate it.

Marco Papic:

But each cycle has mini cycles, and in this particular big cycle of populism, we have a mini cycle where the Fed officials are kind of going back and saying, well, okay, not everything in the Washington Consensus was stupid. We're going to raise rates a little bit to take some heat off of inflation. But as soon as the pain hits, you'll see people start clamoring, for like, "Wait a minute, inflation's not that bad. I want my job." And that's going to happen with another 15% down on people's 401K, you know? And all the YOLO-ing Millennials and Gen Z, when bitcoin hits 2K, they're going to be like, "No, no, no, I'm cool with inflation. Let's go."

Marco Papic:

And by the way, this is the part, this is why I call it a Twitter hysteria. I'm not saying it doesn't have an impact on Biden's approval rating. I'm not saying that Tucker doesn't get a lot of airtime from saying that inflation is up. But here's what I want to say: 23%, I think it's 23, don't quote me on it, although you are quoting me on it. Something like one in four or one in five Americans quit last year. Quit. Just said, "YOLO, I'm out."

Marco Papic:

So, not so sure that inflation is a real political risk. People aren't really in pain. Now, I know this is a callous comment. One of your guests is going to come on and say, "That Marco, he doesn't know what the real people think." Well, let me tell you what the real people think. The bottom third in terms of income, have seen real gains in it. Just show the chart. You take the bottom third in terms of income. They've seen real gains, despite 7-8% CPI. Their wages are rising like a boss. So, the bottom third, even with CPI where it is, have seen real gains in it.

Marco Papic:

It's the middle and the higher income that have seen real incomes go down because of CPI. Now, those are the people that Fed officials go to cocktail parties, and they talk about how, "Ooh, I wanted to buy a SUV for my chalet in Denver, and I couldn't because the prices are so high, and blah, blah, blah." So, they talk about the price of olives in martinis. And so, they're like, "Oh my god, inflation's the problem." Let's



not forget, the middle and the higher third in terms of income all have seen what? Massive appreciation in assets. They have assets. 401Ks, stocks, their sons' and daughters' crypto portfolios, and then real estate assets.

Marco Papic:

So, this whole narrative that inflation is hurting Americans is utter and total Twitter hysteria bullshit. The bottom third of American are seeing real gains from their incomes, because that's where the labor shortage are. They're making bank. It's owners of capital that have to pay owners of labor. It's the middle and the upper third who are seeing, in terms of income, lower returns because of inflation, but they've seen appreciation of assets.

Marco Papic:

So, what am I saying? I'm saying that when the S&P 500 down 20%, call me then, and let's talk if inflation is still political risk number one for Biden. Hell no. It's going to be recession and the fact that S and P 500 is down 20%.

Jacob Shapiro:

Well, I will call you then. But to stay on that for a bit, I mean, it seems like when you look at how inflation's breaking down, not just in the United States, but pretty much everywhere in the world, it's energy prices that is far and away running away with it. I mean, the stuff like trucking, for instance. There's no real shortage. That's about people not wanting to pay truckers enough. There's plenty of actual truckers out there.

Jacob Shapiro:

But there do seem to be some shortages, as you said. You alluded to natural gas. The one I'm worried about, that I wasn't expecting to be worrying about six months ago, is coal. Coal had record prices in 2021. It'll probably have record prices for 2022, and the Indonesians just scare the crap out of the Japanese and the South Koreans and everybody else, because they banned coal exports for a couple of weeks, because they didn't have enough coal.

Jacob Shapiro:

So, it's funny, we've been talking about solar and renewables and wind and all this other stuff, and it seems to me like we're in this mini part of the cycle where it seems like because there hasn't been that capex, or that focus on the things that actually power the economy right now, for the next year or two, we're kind of screwed, because there's not enough of this stuff to go around, and renewables aren't quite ready to take the shoulder.

Marco Papic:

Absolutely.



Jacob Shapiro:

And I just, that scares me a little bit. I wonder where that goes.

Marco Papic:

Well, I mean, look, first of all, it goes to truckers getting paid \$500K. Right? And god bless them. And that's the part of this-

Jacob Shapiro:

I should go become a trucker, is what you're saying.

Marco Papic:

Yeah. And listen, that's the part of this that I'm telling you is Twitter hysteria. The bottom third of Americans are going to start enjoying this 4-8% inflationary world. And a lot of people are not happy about that, so they're like, oh, inflation sucks. Eh, I'm not so sure.

Marco Papic:

The second thing is, one thing that I would take the other side on what you said, is that it's global. So, yes, inflation is global. I don't want to counter that as an objective fact, but it's worse in America than in the rest of the world. I mean, there's a clear chart. US minus world CPI differential, if you put Euro area, China, Canada, Mexico, the average headline CPI of those countries relative to the US, the US inflation is far above that of theirs.

Marco Papic:

We are having the most inflationary... No, I'm not counting Argentina or Turkey. They don't count. Of the countries that are sane, the US has the most extreme inflation outcomes, which is what the Buenos Aires Consensus predicts. We are the furthest to the left to the populism of everyone else. We produce most of the stimulus, both fiscal and monetary, and we're the last, especially when you look at some emerging market economies that started raising rates last year. We are behind that, and all that stuff. So, I think that that's just something I want to emphasize, because it's very relevant for thinking about how to invest.

Marco Papic:

In terms of where inflation goes, absolutely. I don't see it coming down any time soon. But is inflation of 3-6% really that big of a problem? And I would argue no, it isn't. It is if you're an owner of capital. It is if you're a saver. But you know, screw you. You had a great 20 years run. And I'm not saying that Marcos Papic is telling you to go screw yourself because you're a saver. I'm just saying, that's what politicians are going to say. The median voter does not care about your asset prices, man. Let's be clear.

Marco Papic:



And so, that's why #InflationSucks, I hear, I talk to a lot of people with a lot of money. That's what my job is. And all I hear from them is, "Inflation is hurting poor people." No, no, no. It's hurting you. You're starting to get miffed about rising prices. You're being priced out of your nice neighborhoods. The poor people are fine, man. They're fine with 5% inflation, because their wages are going through the roof, as your point about truckers, and as data suggests.

Marco Papic:

And that's why I'm saying, the world you're describing is one where inflation doesn't go back to the mandate of 1-2 or 2.5% CPI. But I do think that's a world that policymakers will be okay with, as long as, of course, CPI isn't above like 8% for a meaningful period of time. Then they have a problem, they have to be super hawkish.

Marco Papic:

And I do think, if you look at some data, like if you look at container rates right now, like if you look at global container freight rates, they are coming down. The Baltic Dry Index is coming down. And I doubt that energy prices, which is what you're talking about, can have as much of an increase as they had last year. It's all about the second derivative. So, while you may be right, oil prices, coal prices may have another leg up, the question is, will they have as much of a leg up as last year? If they don't, the impact of CPI is actually deflation.

Jacob Shapiro:

Yeah.

Marco Papic:

And so, that's why I think CPI peaks, we settle it somewhere around 3-6%, and the Fed just calls that a victory, at some point. Not now, though. Not now. Now, they have to show their teeth.

Jacob Shapiro:

You mentioned them, and we'll go to them over in some of the work I'm doing at Cognitive Investments. We're actually long Turkey a little bit right now. Bathe yourself in your indifference and tell me what Erdowan is doing. Because at first I was with everyone else, I thought he was nuts, and I'm beginning to think he's not so nuts. I'm beginning... I'm not sure if he's going to be right, or if he's going to win out in the end, but I don't think he's crazy. I think I'm beginning to see what he's trying to do, and that he has a puncher's chance. But tell me what you think about Turkey right now.

Marco Papic:

You know, I haven't spent a lot of time with Turkey, so I'm going to punt it back to you, and just hear your thoughts, and I can be like, sanity check for you. So, why are you bullish Turkey?

Jacob Shapiro:



Well, it's funny, I'm bullish Turkey because I wasn't bullish Turkey in some ways, is the answer. But back in 2018 when there was that emerging markets currency crisis, the reason that the Turkish lira was right there with Argentina as kind of the worst performer was because they had all of this US dollar-denominated debt. And because Erdowan had just gorged on dollar-denominated debt for years, and he'd used that to juice up Turkey's growth rates, to line the pockets of all these politicians that he used to create these manufacturing industries, all those kinds of things.

Jacob Shapiro:

And the difference between then and now is that he's managed to get away from that dollar-denominated debt. Now the government's holding more of it. They're doing these fancy things where they're saying, hey, convert everything to lira. The government's going to guarantee your losses, so get it out of crypto, get it out of gold, get it all into the Turkish lira. But I think what he wants is independent monetary policy. He knows that Turkey imports 90% of its energy, or something like that. If Turkey's going to be that levered to what the Fed does, then Turkey really has no economic independence, and he can't do what he needs to do to continue to line the pockets of all those politicians and companies that have allowed him to stay in power in the first place, and he's got an election coming in about a year, where if he can win that election, suddenly he's got a mandate to maybe complete his authoritarianism, or his sort of takeover of Turkish institutions, and he can kind of go from there.

Jacob Shapiro:

So, I think he's trying to disconnect from the US, and trying to lean into this multipolar world, and is expecting the Saudis or the Emeratis or the Chinese, or somebody to realize this is really important strategic real estate, and they are for sale. They don't want to be tied to the US anymore, and we'll go and rescue them. The UAE just signed a \$5 billion exchange swap this week. Maybe somebody else is going to come through.

Jacob Shapiro:

And then, the last bit to it is, when you compare Turkey to all the other economies in the Middle East, I mean, they're the only ones with a real economy. It's not based on energy exports or anything. It's all companies that are making things, that are making things that are increasingly more sophisticated. It's a place you want to be, with an extremely wonderful geography, and so you get all this stuff on the top, but it's not about craziness and insanity, and what Erdowan read in the Koran, and what that means in terms of interest rates. I think what he's trying to do is get Turkey a little more independent. Am I crazy, or am I on to something?

Marco Papic:

I think you articulate a really cogent argument. I think, first of all, Middle East money has always been the variable in getting Turkey right. That's the most difficult to quantify and to actually get data on, because it's always very difficult to figure out how much Middle East capital flows were propping up Turkish assets. So, I know people who were bearish Turkey in the last cycle, who got their faces melted because they just didn't account for that.

Marco Papic:

So, I think that's really important. I think you're on the right track by focusing on that variable, like how much is capital from the Middle East moving into Turkey, and I think the high oil prices would help that, ironically, even though they should hurt the Turkish current economy.

Jacob Shapiro:

Right.

Marco Papic:

The second thing is that Turkey had a really bad year for a lot of reasons. Obviously, unorthodox monetary policy aside, we can say. But all emerging markets had a bad year, even those that had orthodox monetary policy that raised interest rates. And that was what was most interesting to me. Commodity prices went through the roof, but emerging markets did not benefit from it, even those that raised their interest rates. Even those that followed the Washington Consensus playbook from IMF World Bank, they got punished.

Marco Papic:

The one equity market that won last year was America, that was completely rewriting the playbook. That was doing all sorts of things that no one had ever done. It's like, basically US ran an emerging market basket case monetary policy, and the markets were like, yeah, that's great.

Marco Papic:

And so, I think that what Turkey's going to benefit from next year is two trends. One, China has reached the political threshold of pain. That's why Xi Jinping is asking the rest of the world at Davos not to raise interest rates. And that's why I expect a really significant stimulus in China in Q1. So, that's good for Turkey. That's good for emerging markets broadly. Emerging markets that lag commodity prices should benefit. Dollar should peak, even as the Fed raises rates. That would be good for Turkey as well. I mean, the dollar has already peaked. DXY has nestled at 95 and hasn't moved.

Jacob Shapiro:

Yeah.

Marco Papic:

And then, finally, energy prices, your point about coal and other stuff going up notwithstanding, I hear you, I agree with you, but again, it's the second derivative. I think the second derivative is going to be negative for energy prices, which should benefit. Like, oil will stay elevated, but we're not going to go from 30 to 80, or go from 80 to 95 or 100. So, the worst is behind us.

Marco Papic:



So, yeah, I think you make a really strong point for Turkey. I mean, if I was an emerging market investor, I would say that some of the commodity producing lag hurts will probably do better in Turkey. So, I actually really like Brazil, even though there's political risks coming up. I like Chile. I like Peru. I like what's happening in Latin America. I think for Latin America, unlike Turkey, which is an importer of commodities, for Latin America, this is much simpler. You've got US yields going up. You have dollar peaking and probably going down. You have China stimulating you on commodities who are completely just going through on the tear, and you have valuations really cheap.

Marco Papic:

Like, Karl Marx could rise from the grave, run in the Brazilian election, I'd still buy Brazil. I don't care. I don't care. Che Guevara could run Chile, and I'd be like, fine, who cares? Their terms of trade will be so eminently positive that they'll be washed in money, and then it will be like Lula in 2004, when he was a darling of the financial industry, even though he was a former leftist militant.

Jacob Shapiro:

Yeah. I'm so glad you brought that up, because I've been long Chilean equities for a while, because I just thought the whole thing was overwrought about Chile, and there's so much to like there. But I'm glad you brought up Brazil, because I've been struggling with that, and if you look at the timeline with Lula, Brazilian equities nosedived right before the election, and then after he was elected, he became the media darling. So, I've been trying to figure out, do you wait until Lula gets in? Do you get through this election campaign and then things are going to rip, or is now the time to start looking at Brazil?

Marco Papic:

I was in your camp. I was cautious. Like, eh, why mess with it? Just wait for a year. But you know what's interesting? This sell off's starting January 4th, and Russia is underperforming in the CIDM. So, Russia's underperforming in developed markets, mainly because of this Ukraine business.

Jacob Shapiro:

Yeah.

Marco Papic:

Almost every other emerging market economy that you would care about is underperforming significantly, including Brazil. So, Chile, Saudi Arabia, South Africa, Brazil. If you look at equities relative to DM in USD terms, EM Latin America is outperforming EM Asia significantly, in the sell off. We're talking as the US stock market is committing suicide, and we're recording this on January 21st, Friday. NASDAQ's down 1.36 right off the bat. It's just like... S&P 500 4436 as we're recording this.

Jacob Shapiro:

Yeah, yeah.



Marco Papic:

From January 4th through January 21st, we have a sell off. Brazil is up. It's a little bit less up than Chile is, but it's up. And so, I don't know what to tell you, Jacob. That tells me, you know, sometimes the market is not stupid. Sometimes the market is just like, I don't care. I don't care about politics, because things are so eminently good for Brazil at this point.

Jacob Shapiro:

Yeah.

Marco Papic:

So, I don't know. I'm starting to lean towards Brazil ending the year for 2022 as the best performing market, and if it's not Brazil, someone from Latin America. They just lagged so much. They lagged commodities so much that it doesn't make sense.

Jacob Shapiro:

Yeah. I'm with you. Okay. I've got some-

Marco Papic:

And by the way, if I can just say one thing.

Jacob Shapiro:

Yeah, yeah, please.

Marco Papic:

Your Latin America missives, hey, if you're listening to this podcast and you're not subscribed to Jacob's Latin America missives, then I don't know what to tell you.

Jacob Shapiro:

I'm glad you like them. We can talk about that in a second, because... yeah, we'll talk about that later. All right, I've got some over/unders, then we'll talk some basketball, then we'll get you out of here. That sound good?

Marco Papic:

Yes. That sounds excellent.

Jacob Shapiro:

Okay. Over/under four interest rate hikes from the Fed this year?

Marco Papic:



Wait, how many?

Jacob Shapiro:

Yeah, over/under four interest rate hikes from the Fed.

Marco Papic:

Under.

Jacob Shapiro:

Under. How many do we think?

Marco Papic:

Oh, I'm just going to think under four. Like, 3.9.

Jacob Shapiro:

Okay.

Marco Papic:

And here's why. Here's why. I think they remain super hawkish for a while, and then the pain kicks in, and then they back off. So, I'm just going to say under. But you know, it could be like just four. If I had to say what's my, I would say four, and then they back off.

Jacob Shapiro:

Okay. Well, you can say push. I think that happens in Pardon the Interruption. Isn't, I think Kornheiser always gets mad at Wilbon, because he always pushes. Over/under interest rates at 1.5% on January 1st 2024? And I asked you this last time.

Marco Papic:

You did, and I took over, and I won.

Jacob Shapiro:

No, you took under.

Marco Papic:

Wait, what? No, I took over. On 1.5 on the 10-year yield?

Jacob Shapiro:

Yeah. Hold on, hold on. Let me bring it up. I don't want to speak ill of Marco, here.



Marco Papic:

No, because I had a bet with a bunch of people they would end above 1.5 at January 1st, 2022.

Jacob Shapiro:

Hold on, I'm looking.

Marco Papic:

I would be very surprised if I said under. You have to go back and find the audio.

Jacob Shapiro:

Yeah. I'm looking at the transcript right now. It says, yeah, under, and when do you think they go over? You set the line well. No, you said under. All right.

Marco Papic:

Hmm. I was hedging with your podcast, my other bets.

Jacob Shapiro:

So, tell me why over, now?

Marco Papic:

And by the way, I know this because I have a bunch of bets with this, with a bunch of people. They ended at 1.51, which is hilarious. So, the people that owe me steak dinners, they lost by 0.01%.

Jacob Shapiro:

Well, that's still a loss. A loss is a loss.

Marco Papic:

A loss is a loss, yeah. No, the line was very well set. Yeah, I think it's going to be over, unless we have a recession, or China fails its stimulus.

Jacob Shapiro:

Yeah. The nice thing about 2024 though is, you could have a recession in between that, and...

Marco Papic:

Oh, sorry, 2024.

Jacob Shapiro:

Yeah, 2024.



Marco Papic:

Ooh, that's such an important question, Jacob, for so many reasons, right? US election.

Jacob Shapiro:

Yeah.

Marco Papic:

So...

Jacob Shapiro:

I have to tell, for the listeners, for the first time, I think, in the history of this podcast, Marco looked up and leaned back in his chair.

Marco Papic:

Well, I want to be consistent, right? I got to be consistent to the framework. So, if we are in the Buenos Aires Consensus, what does that mean? Buenos Aires Consensus means that policymakers do not want to impose any pain on their constituents, because they're just afraid. That's why Argentina's a mess, because they don't do things that are difficult.

Jacob Shapiro:

Yeah.

Marco Papic:

It's no pain, no gain. And so, we are in that world, I think. And so, what I think is going to happen is that 2022 will be year of hawkish bet, then they back off a little bit. 2023, I don't know what happens, but 2024, I think that they cannot allow a recession to happen. And they go into election with inflation having been somewhere between 3 and 6% for three years.

Jacob Shapiro:

Yeah.

Marco Papic:

Because if they take a recession, it's over. Republicans will run a chocolate labrador, and he'll beat Biden, or whoever. I don't care who. The Democrats could run a young Bill Clinton, Ronald Reagan clone and lose to a chocolate labrador if there is a recession in 2024. That's kind of my view. So, I think that the 10-year will have to be higher than 1.5 for 2024 if that is true. If you have three years of recession between 3 and 6%, has the 10-year at 1.5. Yes.

Jacob Shapiro:



All right. Well, and so, this next one is tied to this exact question, so I'll ask it now. So, is it going to be over/under one presidential term for Joe Biden?

Marco Papic:

Oh, that's so good. I mean, that's also such a great question. I would have to take under.

Jacob Shapiro:

Yeah? Why?

Marco Papic:

I mean, I don't think Trump wins the Republican primary. I don't think he wins.

Jacob Shapiro:

Really? Great. Tell me why. I'm convinced that he's going to. Tell me why I'm crazy.

Marco Papic:

You know, Democrats have been very good at strategic voting, and that's something no Republican-

Jacob Shapiro:

I'm sorry, did you just say Democrats were good at something? I wasn't sure if I...

Marco Papic:

They're good at strategic voting. Like, look, I remember in 2019, I was the only Biden... I was the only person with money riding on Biden. And I had so many people laugh in my face. Mainly Republicans who were like, "No way they're going to elect a Communist." Like, eh, you should probably lay off of Twitter.

Jacob Shapiro:

Yeah.

Marco Papic:

Because there is a constituency in the Democratic party that's not on Twitter, or is not on your Twitter, and they are going to vote for the guy who can be like Trump. And so, the Democrats were smart, that they elected the guy who can beat Trump. Now, you might disagree with his policies and his effectiveness and all that stuff. That's fine. I'm not saying that, but from a strategic perspective, Biden was like an instant meal. He did what he was... You broke glass, you pulled Biden out of the little box, and he did what he was supposed to do, which was beat Trump.

Jacob Shapiro:

Yeah.



Marco Papic:

So, I think that the Republicans will learn from that experience, and I think that they will learn that somebody other than Trump probably waltzes into the White House very smoothly. And so, I think that that's going to be a problem for Trump in the primary election. I think the Republicans will be motivated. I think that suburban families will be motivated to vote in the Republican primaries, and they're going to turn out, and they're going to vote for somebody who is capable of beating any Democrat out there.

Marco Papic:

And that's why I think these governor elections that went against the Democrats in 2021 were so important, because they illustrated to the Republicans that they can get the suburban moms and dads to come out and vote for them, they just need to put someone who is sane. And I think that that should work really well against, honestly, anyone. Even if Biden doesn't run, I don't see anyone on the Democratic side. Because on the economic side, they're kind of damned if they do, damned if they don't. They solve inflation, they cause a recession. If they don't solve inflation, then inflation will remain #InflationSucks.

Jacob Shapiro:

Yeah.

Marco Papic:

And then, COVID. COVID, COVID, COVID. COVID policies have, I think, done more to hurt Biden than anything else. People say that his approval rating is down because of this, that or the other. I think it's just COVID.

Jacob Shapiro:

Yeah. It's hard to argue with that. And it's hard... I think all presidents would have struggled with it.

Marco Papic:

Yeah, no, that's fair. That is fair, and a lot of it has nothing to do with him, because he is not in your school district.

Jacob Shapiro:

Yep.

Marco Papic:

But I think that there's going to be a big backlash, I think, against the whole COVID thing. And you know, I'm starting to see more and more people, just anecdotally, really have soured on kind of our policies as a country. And not just in the US, everywhere. Everyone's mad everywhere. People are just angry at this point, and they just want it to be over, and I think that maybe the midterms are a good opportunity for



Democrats to kind of take it in the guts and use that as a reset, and then Biden can run against the Republican Congress like he did, as Obama did. But I would take under at this point, right now.

Jacob Shapiro:

Fair enough. Basketball, what do you think? I have nothing nice to say about the Pelicans. I have nothing nice to say about the Hawks. I assume you don't have much nice to say about the Lakers. How are you doing?

Marco Papic:

No. No, I'm... You know, I just want to sit on the couch and talk to you about it.

Jacob Shapiro:

Look, if you want to trade us LeBron, just send LeBron over to New Orleans. We'll name him mayor of the city immediately. He can have the team for as long as he wants.

Marco Papic:

Look, I think the problem with the Lakers, I think we identified before, is defense. They traded everybody who could defend in the perimeter. I don't think it's the age. I don't think it's the Russell Westbrook.

Jacob Shapiro:

Yeah.

Marco Papic:

I didn't like that trade, but I'm like, okay, cool, whatever. I get it. I think it's just defense. And this is the thing. Sometimes we get overly cute as managers, as analysts, and what worked for the Lakers in the bubble was defense, was JaVale McGee and AD having these huge wingspans, being able to close out on the three-point line. And it was the guys who could take one-on-one defense, which is really difficult in today's NBA, because there's so much space. Being able to stay in front of someone, and that's Caruso and KCP, could do that. And now, nobody can do that, and for some reason, the Lakers took that model that worked in 2020, ignored it, and doubled down on let's get a bunch of people to shoot threes.

Marco Papic:

And then, so that's the number one reason. The other thing is just AD. He's just frustrating. And that's what Charles Barkley was saying on Inside the NBA. I don't know how many other people think the same way, but he has the stats. He shows up every game. It's like 28 and 15, whatever. He can do that. But there are stretches of the game, Jacob, where I don't even know if he's present.

Jacob Shapiro:



Yeah. I mean, I wouldn't want to root for AD on my team. I will say, I went to a Pelicans game I was telling you about a little while ago, and it was the Nuggets. Jokic is so good, man. I would just... Can we just put them all away and just watch him play every single game? He looks good on the television. He ate the Pelicans for breakfast.

Marco Papic:

Literally. He probably literally ate at least one of them. You have to check the bench, like is everybody here? Did Nikola Jokic eat somebody?

Jacob Shapiro:

I think he might win the MVP again.

Marco Papic:

Well, they have to do much better. I mean, right now, Memphis is doing really, really well. Steph Curry, Golden State Warriors. They need to rise.

Jacob Shapiro:

Steph kind of got cold for a month. KD is hurt now. Maybe CP3 gets the nod? I don't know. I feel like it's open for him again.

Marco Papic:

You think so? But they're... Whatever. Let's check the stats here.

Jacob Shapiro:

They're not great, but they also don't have a team except for Jokic.

Marco Papic:

Sixth.

Jacob Shapiro:

Like, he's... Murray's gone. They have nobody. It's just Jokic and his merry band of miscreants running around. Like, his brothers are more important to the team than the actual players they have on the floor.

Marco Papic:

I think he would make me or you average 12 points per game.

Jacob Shapiro:

Probably.



Marco Papic:

He would hit our head. The ball would bounce from our head into the basket. Well, you know, I'm fascinated by it. He's doing great. So is Dončić. Both are-

Jacob Shapiro:

Don't talk to me about it. I had such high hopes for Luka, and he shows up fat, drinking all the sweet tea and the milkshakes and stuff like that.

Marco Papic:

Yeah, I know, that was funny. That was funny. But no, both him and Jokic look out of shape.

Jacob Shapiro:

No, but Jokic is just big-boned. Luka has one job, and he didn't do it. Jokic is at least running up and down the floor. I don't seem him gassed, like keeled over. Yes, he gets, he looks red in the face, but he literally, he played for like 45 minutes in an overtime game that I watched without getting...

Marco Papic:

I know, I saw that game. That was pretty good.

Jacob Shapiro:

And in person, he looks, he didn't look tired. It looked like he was working hard, but he never slowed down, not even until the very end. Whereas Luka, he's starting to come into form a little bit, but man, you have one job. Just take care of your body, man. You've got the whole world by the... I don't know. I just can't.

Marco Papic:

Well, I mean, look, Dallas is fifth in the West. They have the better record right now than the Nuggets. And you could argue, Luka doesn't have much of a sporting past, either. So, you know.

Jacob Shapiro:

Yeah. I don't know.

Marco Papic:

Listen, I'm just fascinated by what you call big-boned people doing well. As a member of that tribe of big-boned people, I'm just happy to see two dudes who are kind of doughty dominating the NBA. That's awesome. There's still hope for me.

Jacob Shapiro:

Yeah. All right, well...



Marco Papic:

But listen, before we go, I will ask you for this. I'm really happy, I'm coaching, actually, my daughter's basketball team.

Jacob Shapiro:

Oh, nice.

Marco Papic:

Yeah, so any tips? Any tips? Any drills that I should pull out today?

Jacob Shapiro:

Let me see. Well, wait, how old is your daughter now?

Marco Papic:

They are seventh to eighth grade.

Jacob Shapiro:

Okay, so it's a little early to get too tough.

Marco Papic:

No, no.

Jacob Shapiro:

No, not?

Marco Papic:

No. Well, what is the toughest thing you had to do in basketball practice?

Jacob Shapiro:

Well, so, I had a coach... I played, I went to a Jewish high school, Jewish basketball team, and the first three years, we got kind of upgraded into the super league, because apparently the year before I started, they did really well. So, we got upgraded to the super league with all these teams, and I'm not exaggerating, not only did we not win a game my first three years, we didn't lose by less than 40. I mean, we were getting blown out of every single game. It was really disheartening.

Jacob Shapiro:

And then, my senior year, they knocked us down to the lower level, and we had this coach, shout out to Marlon Bankett. Flamingly gay Black man. Super skinny. Just a real attitude to him. And his whole thing, he wasn't X's and O's or anything. He's just like, "I'm going to get these Jews into the best shape of their



entire life, and we're going to run up and down the court, and we're going to win every single game." And we did!

Jacob Shapiro:

And the one drill that he did that I literally keeled over the first time we did it, and I got benched for a game or two because he thought I was completely incompetent because I couldn't do the drill was, and you can't do this with the girls' team obviously, but get a towel. He had us take off our shirts, and you had to run a suicide, except you had your shirt on the floor, like you were wiping the floor with the shirt the entire time. So, you did the suicide...

Marco Papic:

With your leg, or with your hands?

Jacob Shapiro:

With your hands, so you're like bent over and moving it up and doing it the whole time. It was so miserable, and after you did it for a couple of weeks, you were just running circles around everybody. So, I would say, get your girls some towels and have them do the suicides on the floor.

Marco Papic:

That was, actually, this was my plan. My plan was, we're going to blitz all night.

Jacob Shapiro:

Yeah.

Marco Papic:

And if they cross the line of scrimmage, I'm going to take every last one of you out. That's my plan. Like Remember the Titans, basically. So, good. I like this. Towels are coming, I can tell you that.

Jacob Shapiro:

I guess, so you're also going to take them on a bus to Gettysburg and run them?

Marco Papic:

Yeah. No, listen, I am going to make them watch, one practice, Rudy. It's a Catholic school right away, so Rudy will do great. Notre Dame, all that stuff. But yeah, no, I actually coached my high school and my JV team, and we came second because of the various presses, zone presses I created for that age group. I mean, look, it was 22 years ago, whatever it was, so I'm looking forward to dusting off the playbook.

Jacob Shapiro:

All right, well, if you need a consultant to come in, just let me know. I'll fly out.



Marco Papic:

Hey, would you come out, would you fly out to Santa Monica? Let's do it.

Jacob Shapiro:

All right, I'm coming in.

Marco Papic:

Cousin Jacob, you are the assistant coach.

Jacob Shapiro:

All right. Marco, it's always a pleasure, man. Thanks so much for the time.

Marco Papic:

Thank you.

Jacob Shapiro:

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