The Economic Club of New York

Stanley Druckenmiller
Chairman and Chief Executive Officer
Duquesne Family Office, LLC

Impact of COVID-19 on Board Governance and Litigation

Webinar

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Moderator: Scott Bessent
Founder and CIO
Key Square Capital Management, LLC

Introduction

President Barbara Van Allen

Welcome everyone. This is Barbara Van Allen, President of The Economic Club. Thank you for joining us. We're going to get started in approximately a minute and a half. Thank you.

Chairman Marie-Josée Kravis: Good afternoon everyone. I'm Marie-Josée Kravis, the Chair of The Economic Club of New York and a Senior Fellow at The Hudson Institute. And I'm happy to welcome all of you here this afternoon. We feel at the Economic Club that we have a special responsibility in this time of crisis to try to bring to you as much relevant information – and I say information, not noise – on the social, political, economic implications of the coronavirus. And I'm very happy to welcome members of The Economic Clubs of Chicago and Washington who are joining us today as well as those from the New York Women's Forum. Thank you all. I hope you're safe and well and so are your families.

And before we begin, I really want to thank all of the front-line workers who are making all of our lives so much better, safer, and easier – the healthcare workers, other front-line workers, people working in grocery stores, truckers, in various public positions that really do make our lives much easier. And I want to thank you and hope that you are all

safe and so are your families.

It's my pleasure today to welcome, for a repeat performance, Stan Druckenmiller and Scott Bessent. Stan Druckenmiller is the Chairman and Chief Executive Officer of Duquesne Family Office. Stan founded Duquesne Capital Management in 1981 which he ran until he closed the firm at the end of 2010. And from 1988 to 2000, he was a Managing Director at Soros Fund Management.

Stan is very active as a philanthropist. He's the Chairman of the Board of the Harlem Children's Zone, the Chairman of Blue Meridian Partners, a board member at Memorial Sloan Kettering and the Environmental Defense Fund. And he's a member of the Investment Committee of Bowdoin College and a co-founder and board member of Kasparov Chess Foundation.

The format today is going to be a conversation and we're very fortunate to have Scott Bessent, the Chief Executive Officer and Chief Investment Officer for Key Square Group, and he will lead the conversation. Scott was Chief Investment Officer for Soros Fund Management, the investment vehicle for the Soros family and their foundations from 2011 to 2015. From 2006 to 2010, Scott was an adjunct professor at Yale University where he taught economic history. Scott is a frequent speaker on economic and investment panels and we are thrilled to have him with us today.

Just to remind everyone, the conversation is on the record and there are, I'm sure, some media connected to this webinar. We will end promptly at 4:45. And any questions that were sent to the Club from members have been shared with Scott in advance. So with no further ado, Scott, I turn it to you.

Conversation with Stanley Druckenmiller

SCOTT BESSENT: Marie-Josée, thank you very much. And I want to really congratulate you and Barbara for the programming during this time. Of all the organizations I'm part of, it's been the most nourishing and you've adapted the quickest, so well done.

CHAIRMAN MARIE-JOSÉE KRAVIS: Thank you.

SCOTT BESSENT: So, Stan, looking at the stock markets, you wouldn't know that much has happened since we were at The Economic Club of New York 11 months ago. The S&P is 6 ½% higher. Nasdaq-100 is 33% higher. Gold is 28% higher. The dollar is 3% higher. Now, in fixed income it tells a different story. Fed funds are down 225 basis points and ten-year yields are down 135. But with all the coronavirus, the news that's happened since January, how can this be?

STANLEY DRUCKENMILLER: Thank you Scott. And thank you Marie-Josée and it's great to be here with everyone. And I agree with Scott's comments on the wonderful job you've been doing. Well, hindsight is wonderful, but despite what looks like a very strange reaction to the events over the last 12 months, it's actually very consistent with market history.

And how can I say that? A year ago, if you remember, Donald Trump had just turned up the tariff dial dramatically. Acute quantitative tightening had just ended. There was no sign of quantitative easing. They had made their last rate hike in December and supposedly going forward we were neutral. The estimate for the S&P earnings this year, so '20, was $175. It's now $125. And the S&P earnings estimate for next year was $193. It's now $161. But there's one little addendum in there that I'd like to put in and that's that since that time the Fed has taken fed funds from 225 basis points to zero and they've done, they've increased their balance sheet from $4 trillion to $8 trillion.

Now, if there's one thing I've been quoted more than anything since I became a talking head, when I closed down Duquesne Capital Management, it's a comment that I've consistently repeated that over the intermediate term liquidity moves markets much, much more than earnings do. And all the things I'm talking about and the uncertainty of corona has sort of been overwhelmed by the fact that the rate outlook has gone from

225 basis points on the short end to zero. And more importantly, the Fed has increased their balance sheet from $4 trillion to $8 trillion. QE1 was bullish for stocks. QE2 was bullish for stocks. QE3 was bullish for stocks. And QT, the day it started, stocks from that point on dropped 20% in four months. The gold is obviously consistent, when the Fed increases their balance sheet that much and you have the kind of government intervention you've had.

The Nasdaq at first looked strange but it's not strange by hindsight. The Nasdaq at the time was the leading group because we had Fang and some other companies that looked like they were impervious – we talked about them last year – to low nominal growth and would continue to go on. And by some sort of weird coincidence or happy circumstance if you were in that leadership group, they either are not bothered by the coronavirus because most of their earnings are from remote stuff anyway or (b) they're a beneficiary of it. So their earnings expectation – while the S&P has gone from $175 to $125 this year – are not down and they're being judged against a much lower interest rate structure with a lot more liquidity expansion. So, I know it sounds weird on the surface but if you look underneath it's actually quite a logical response of the markets in hindsight.

SCOTT BESSENT: So, given your longstanding views on liquidity, I think you have an out of consensus view with the rest of the market who thinks that from here on out the

stock market doesn't have to worry because of the liquidity injections.

STANLEY DRUCKENMILLER: I do. And it's so out of consensus I'm not sure I even believe it. It's something I'm just wrestling with, but I think it makes the risk-reward decision pretty darn easy. So right now with the S&P at 2930 – I'm sorry that's six hours old and that's a big six hours, but this morning the S&P was at 2930 – you were 20 times what I consider would be the moderate recovery case from the virus which was $145 in earnings in 2021 or 17 times $172 which would be 5% above '19 earnings and I would consider an extremely aggressive economic assumption about where we're going to be in 2021 to where we are now.

Those seem to me very, very high multiples given the uncertainty of the virus, the bankruptcies we're going to have, the fact that the Fed has solved for liquidity but not for solvency. Eleven percent of the economy, travel and leisure looks challenged. The banking system looks challenged with all these bankruptcies around. So the consensus out there seems to be don't worry, the Fed has your back. Despite everything you're reading, the stimulus is much bigger than the problem and liquidity going forward is just massive.

There's only one problem with that. Our analysis says it's not true. So, just to back up a little, I stated earlier that the Fed has increased their balance sheet from $4 trillion to $8

trillion. While they've done that, the Treasury Department, I'd say the budget deficit estimate for this year has gone from maybe a trillion a year ago to $3.5 trillion. And I'm sure you saw earlier today – because we have a bunch of economic wizards on the call – the April deficit was $770 billion just in and of itself. So, in March and April alone, the Fed – net of Treasury issuance – paid for the new spending created a trillion in QE more than Treasury issuance. So it's the biggest liquidity injection relative to history I've ever seen.

Now, I just want to back up a little bit about the way QE works or the way I perceive it works. So let's say the Treasury, I'm sorry, the Federal Reserve is going to buy $100 billion worth of bonds. Who is on the other side of that transaction? People like me and we sell them our $100 billion of Treasuries. If we're selling them $100 billion of Treasuries, which is a risk-free asset, or it's a Treasury asset, so it's a low risk asset, it's highly unlikely that we're going to turn around and put all that money back into Treasuries. So that money leaks into risk assets and therefore risks them up. So basically the QE, the bond buying that the Fed does spills over into risk assets. And QE1, QE2, QE3, in the last ten years, that's how the process worked.

And that is certainly how it worked in March and April in which you've had this stunning increase in unemployment from like zero to 30, 30 million people, and yet the market from the low rallies 35%. That's because net of the Treasury issuance, a trillion in

liquidity was created and everyone is still of the view that liquidity is just fantastic. The problem is as you look forward, because the Treasury deficits are not only still going to be there, they're just rolling out aggressively now the financing of them, the Fed front-ran this with their actions of a month or two ago. And so that's how, what the Fed bought was a trillion more than Treasury issued.

What's going to happen now is Treasury issuance has caught up with the Fed and if they stick to the schedule they've outlined, the net difference between those two actually goes to zero in May and net borrowing by Treasury relative to Fed purchases in June very minor, pretty much flat through September, and then liquidity shrinks as far as the eye can see as the Treasury borrowing crowds out, not only the private economy but even overwhelms Fed purchases.

So, I guess what I'm saying, Scott, is it takes a lot of liquidity to drive a market from 2200 to 2900. We're at 2900. We're not at 2200. And the reason we got there at a very minimum, momentum has peaked, and more likely there's no net new liquidity or no new net spillover coming into financial assets in general. That leads me to believe the risk-reward, given the fact that we don't know what's going to happen with the virus, we have bankruptcies out there, we have some capitalism problems, which I think we're going to talk about in a few minutes, 2900, I just think the risk-reward for equities is maybe as bad as I've seen it in my career here.

The wild card is the Fed can always step up their purchases relative to what they're saying they're going to do now, but I don't really know why they would have tapered from $500,000, a billion a week, to $7 billion a day if they were ready to ratchet right back up again. So at 2900 I don't see them doing that.

SCOTT BESSENT: Well, maybe someone from the Fed is watching the interview today and you saved the market. Could you give me your take on the Fed response since mid-March and on the fiscal response?

STANLEY DRUCKENMILLER: Since mid-March or when they started their response in mid-March, I will give them an A++. But I'm going to cheat a little and say it's not fair to start in mid-March because the Fed did what they had to do in March. But had the Fed normalized rates when the economy was booming and had they not cut rates last fall with unemployment at 3.5% on the theory that 1.7% inflation versus 2% is some kind of economic catastrophe, they would have had (a) more bullets to fire here on the conventional side and (b) more importantly, we would not have had – in my opinion – the massive leveraging we had on the government side. It's unbelievable. We went into this, into Covid with a $1.4 trillion government deficit with full unemployment – we'd never seen anything like it – and corporations took their borrowing from $6 trillion to $10 trillion. In my opinion, this was all a result of free money despite many, many chances to

normalize from 2012 to 2020. So because there was free money and because of the behavior I've just described, they had to do a lot more in March than they would have done because of all this borrowing and all this leveraging took place.

I would also say that once we got out of March and into April, I found the $2.3 trillion where they crossed all kinds of lines in terms of collateral and stuff, we never got near in 2008 somewhat puzzling and aggressive. I could see it if we were still at 2200 and I could see it if the bond market was shut – I'm talking about the corporate bond market – but it came a week after the most aggressive bond market issuance in history.

And it's just a little weird to me because in my opinion the reason they had to do so much was because corporations over-borrowed and were over-leveraged getting into this and those same corporations are now – when we know we're on the front end of a recession – the answer is to borrow more. And that doesn't make sense to me because the Fed is there to solve the liquidity problem and open markets which they'd already done with their first steps but they're not there and they are not in any way capable, in my opinion, of solving the solvency problem.

In terms of Treasury, I will give them an F. We came into this, in the situation I just described, and clearly, they had to do something. But the fiscal stimulus they implemented was not investment spending to me that builds future growth. It was

basically a combination of (a) transfer payments to individuals, basically paying them more not to work than to work. And in addition to that, it was a bunch of payments to zombie companies to keep them alive.

One of the things, there's an economist, Torsten Slok – who probably most know I read – a few weeks ago, it was quite interesting, 1,600 companies in America go under every week when things are fine. Now, most of them are one to five employees. But that's how creative destruction works and that's how capitalism works. Those companies, I'm sure a lot of them are in the package and they would have gone under anyway but they're being kept alive.

But more importantly, you have companies like airlines that, because of the free money I talked about, they spent 97% of their free cash flow on corporate buybacks. It was common all over America – financial engineering. And, yes, it wasn't their fault that coronavirus happened, but I've actually been saying for years, none of these companies are going to be able to survive in a recession given the borrowing they're doing and it's reckless.

And finally I would say instead of the fiscal going to that and doing supply side kind of reforms that the Bush administration did in 2001 and 2002, we could have been doing that kind of thing and spending the money on R&D, 5G, improving our healthcare

network, our crumbling infrastructure. So to me this is like the most anti-capitalist, anti-free market stuff I've ever seen and it's kind of shameful and it's amazing it happened under a Republican administration.

SCOTT BESSENT: Well, kind of a Republican administration. Given the massive Treasury supply, will QE be enough to keep long-end bond yields from backing up? Or do you think the Fed may have to do some kind of yield curve control?

STANLEY DRUCKENMILLER: I think like the early 50s, but with an exclamation point, financial repression will win out here and the Fed will do what they need to do. It may end up in yield control. It may end up being just a bunch of QE. But I think the bond market will win out and rates will be held down low at the risk possibly of what I spoke about earlier, which is crowding out the private sector.

I do think going into this, and I think you might have asked me this a year ago because we were already doing wild stuff, does this end in inflation or deflation? I've said many times over the last four or five years, if I was the Fed and I was trying to create deflation, I would do exactly what they were doing because you've never had a deflation without an asset bubble before having been created. You never had deflation because you were close to the zero bound. You always had deflation because you had an asset bubble and then a bust. And my guess is going into this, there's a good chance that we

just cracked the credit bubble that is a result of free money and we're going to have, this is going to be deflationary, not inflationary, particularly with 15%, 16% unemployment.

SCOTT BESSENT: So given the specter of deflation, should negative rates be part of the solution or will they only create a bigger problem?

STANLEY DRUCKENMILLER: Oh, God, I hope not. I just firmly believe that you can't have capitalism work without a hurdle rate for investments. And if I believed it 20 or 30 years ago, I believe it more now. It's been tried in Japan. It's been tried in Europe. It's a failure. It cuts off the invisible hand and, you know, somehow, we survived 5,000 years without negative rates. These geniuses in the Ivy League have decided that they're a wonderful idea. I just, I don't understand even what the argument is.

SCOTT BESSENT: So President Trump often states that we entered the virus storm with the strongest economy in history and, therefore, when the virus passes, we're going to V-out and be stronger than ever. I think I know what you think, but I think it would be interesting for everyone online to hear.

STANLEY DRUCKENMILLER: I really, really wish I agreed with President Trump. And God bless him, I hope he's right and I hope I'm dead wrong. But as you can imagine from what I've just said over the last five or ten minutes, yes, unemployment was the

lowest it had been in, well, 30 or 40 years, and yes, it was exciting that a lot of the people employed had not been able to work, join the workforce before, but to me it was the result of reckless fiscal spending, huge leveraging on the government side. Again, I already noted, but a $1.4 trillion deficit with that full employment. Just unheard of.

You remember back in the Clinton days when we had, the last economic boom we had we actually had a Treasury surplus for a bit. And also, we just had record corporate borrowing, again due to free money. So, to me, going into it, instead of saying we have the strongest economy ever, I'd be thinking, oh my God, we just popped the biggest credit bubble in history and a la Reinhart and Rogoff's piece back in 2009, the de-leveraging that is going to be required, that if I'm right and this thing snapped, is going to take many, many, many years of sub-par growth to get out of.

And I'm even more fearful that given the government's involvement in business and how much we're spending – again for non-investment spending – we're going to have much, much higher taxes and much higher regulations going forward. So, I've been wrong before. I'll be wrong again on things. And I pray I'm wrong on this, but I just think the V-out is a fantasy.

SCOTT BESSENT: So, if we go to Covid-19, what's the mental model you've been using for the virus in terms of the length and the severity? And other than a vaccine,

what wildcards might be out there that could influence the markets?

STANLEY DRUCKENMILLER: You mean with regard to the virus only?

SCOTT BESSENT: Virus only.

STANLEY DRUCKENMILLER: Okay, (a) I don't have a clue. I'm just a dumb money manager, I'm not a scientist, but I'm not sure the scientists have a clue either. But because of my day job, I've got to have a view on this because it's driving the markets. So there's never been a vaccine for a serious virus discovered within four years. This time I would say, because of the focus and the number of geniuses that are working on this and the worldwide effort, there's certainly an opinion on my part that it won't take four years.

But what we're using as an assumption, and Scott, I don't have a clue, but we have to assume something, is there's a 50/50 chance we'll have an operative vaccine by June of '21. It's very unlikely that even if we get one by the end of the year – there was a great interview with Melinda Gates yesterday – you've still got to make billions of these things. So I think the odds of anything operative before June of '21 are quite remote. And I would say that's 50/50. Don't forget there have been a bunch of coronaviruses, they haven't had a vaccine for one of them. And there's a theory which is quite possible

that this thing happened because they were working on a coronavirus in a lab. So I'm not optimistic on the vaccine anytime in the near term, but again you could talk to my dog and get as much information. I'm just telling you what I've had to work with.

In terms of the viral drug remedies, like remdesivir or the other ones, I don't know why the economy and the market jumped so much when they're optimistic about it. It's like, oh, I have an 8% chance of dying instead of 11%, or I'm going to get sick and be on an IV so now I'm going to go out and party without a mask. I don't see why anybody would change their behavior because there's a viral drug out there. But again, the big wildcard here is the wildcard I've seen from the beginning and that is the government reaction. And other places have shown how poorly (a) this thing has been managed from the beginning and, in my opinion, how poorly it's been managed going forward.

So, as I'm sure most of you – if not all of you know – Hong Kong...I'm sorry, Taiwan has 25 million people, they've had six deaths. Hong Kong has 7.5 million people; they've had four deaths. They're both right on the border of China. It's hard for me to believe our biggest ally in the Far East, which is Taiwan, didn't tell the Trump administration their theory despite what President Xi was saying, about human to human transmission in late December. So, in that standpoint, it's just tragic how this thing started, but then once you got into the virus, I've been continually surprised by the lack of cost benefit analysis of how we operate going forward.

Taiwan, Hong Kong, these places have shown, if you put on a mask, if you social distance, you don't need to shut down your whole economy. Taiwan has never locked down their economy. Neither has Hong Kong. They've made adjustments. We have 34 million people unemployed and we're going to have about 100,000 deaths. I'm not saying the deaths aren't important, but Marie-Josée mentioned some of the not-for-profit work I do, I can guarantee you poverty kills. I can guarantee you waylaying cancer patients, heart intervention patients, I mean this is one of the most bizarre decision-making processes I've seen. And I wouldn't be surprised at all in 30 years if it's going to be the poster child for the worst public policy decisions ever made, ever, on a cost benefit analysis.

SCOTT BESSENT: Right. So the consistent narrative since March has been that the virus just supercharged existing trends. You've been a bull on secular growth stocks and the Cloud for years. Where are you now? And what other trends do you think we're going to see as a result of the virus acceleration?

STANLEY DRUCKENMILLER: Yes, as I mentioned earlier, it was very convenient if you only used growth stocks what the virus did. And let me just back up a little. I probably said it with you a year ago. If not, I said it at a lot of other places. The transition to the Cloud and digitization looked to me like at least a ten-year runway from last year and we

were in maybe the first inning, at the very worst at the top of the second inning, in terms of that process. These companies have never been cheap but it looked to me like digitization was one of these long runs, like the transition to mobile that offered tremendous investment opportunities.

So that's kind of where I've been for four or five years and where I was in February. When this first happened, not knowing that we were going to lock down and shut down our whole economy, I remember at our investment meeting here saying, well, why isn't Amazon worth more, not less? If rates are going to go to zero, you're going to have all this stimulus, this is going to move more people to the Cloud quicker. So even if their earnings are what they were going to be which is what it looks like, Amazon has to be worth more, not less, and the stock had gone from, I don't know, $2,150 down to $1,650.

What I didn't know is we were going to forcibly lock down the entire economy and that company after company – I've talked to so many companies in the last three or four weeks because I've had nothing else to do like everybody else – when you ask them what their biggest surprise around this whole phenomenon is, and this is obviously not the manufacturers and not ones that require direct service employees, but it's how unbelievably well and seamless they can run their companies remotely.

And the other comment has been how, even industrial companies – forget the technology companies – companies that were on the road to digitization had such an advantage over those that weren't. And they're just doubling down on moving to the Cloud even more than they were, and if you're behind, it's really an existential threat to you. Like if you're a retailer and you're not online in a year with a strong presence, you're a goner.

So, to me, that one to ten-year runway and that first inning, we're going to jump to the fourth inning now. But more importantly, on the other side of this, '21, '22, I think is going to be a big acceleration period. So I don't think this trend has stopped at all. I think it's rational. I feel a little differently than I did three or four weeks ago because a lot of these stocks have literally doubled since the March low and a lot of them are up 30 or 40% in the last few weeks. So I haven't discovered the wheel here, but I think the market reaction is rational.

If we got a vaccine announced tonight, my guess is these stocks would be down 10 to 15% but they'd be higher in two or three years. And my guess is value would be up 25% if we announced a vaccine tonight but they would be kind of nowhere in two or three years. So I'm still there. It's just a weird, pleasant coincidence in very, very tragic and unpleasant circumstances that the leaders in the market and the growth companies, this has just accelerated had one owned them in the first place.

SCOTT BESSENT: You made a very interesting remark to me the other day. You know Amazon is much maligned but you were talking about them pushing all the other retailers into deliberating.

STANLEY DRUCKENMILLER: Yes, I have a bit of a thing for Amazon. I gave this speech at The Manhattan Institute four years ago on capitalism and thought how ridiculous it was that the President of the United States – I was talking about Rule of Law – had attacked the son of an immigrant who had built just this fantastic company and was trying to do things with the post office and other things. But it's just amazing to me, then you see the AOC thing.

Here we have this unbelievable company. It's made all our lives better. They've been unbelievable in this crisis. They've hired 100,000 people or whatever it is. If you listen to their earnings call, they spent $4 billion giving raises and transitioning their product to the less profitable stuff that were essential needs. They didn't raise their prices on anything. We should just get down on our knees and thank the Lord that this company existed in this pandemic. And then it's interesting because, being the shy person I was, I was on this rant with Ken Langone a week ago and he said, well, you know, they made us a much better company and the reason we're so good online now is because we had to compete with them.

SCOTT BESSENT: That's Home Depot?

STANLEY DRUCKENMILLER: Yes, I'm sorry, Home Depot, but there's 20 or 30 companies out there. Look, as horrible as this thing is and it is horrible, imagine if it had happened four years ago, before Zoom, before Amazon, and before Amazon drove all these other companies, like Walmart, Target. All of them have an online presence. So, yes, I think it's an amazing company. I get a little emotional as you can hear when politicians attack it. But I also think it's, the whole phenomenon has been amazing in our country of all these companies and all the creation they've done and how it made this pandemic – as horrible as it is – a lot less horrible for the average citizen.

SCOTT BESSENT: So coming back to your point on the President versus Bezos, you've been, one of the things you've talked about a long time is your concern for the attack on capitalism in the U.S. What are your thoughts now? And are market-based solutions going to be dead for the next ten years?

STANLEY DRUCKENMILLER: Well, in that speech the thing that I found the most disturbing is that the government had rigged the most important price in the world. After learning in Economics-1 that wage and price controls don't work, we decided to put price controls on the most important price in the world, which was the price of long-term interest rates, the price of money. And you can only imagine what I think now.

So we've been in this slowly declining trend. You've had one corporate executive after another talk about how capitalism was broken the last couple of years which I found not a good comment because we weren't doing capitalism. We were doing sort of this weird bastardized version. And now, to me, Covid has just sent us off the cliff and I think we've crossed the Rubicon. I don't think we're going back. It's very obvious the way the Democrats acted in these so-called stimulus negotiations that this is just going to be another move. If the Democrats win, it's a great chance for them to move things further to the left and further against capitalism. So I'm very worried and I'm sort of working under the assumption, again I'm flexible and I hope I'm wrong, but that American exceptionalism, which is the invisible hand, it is the embracement of a meritocracy, is as challenged as I've ever seen it in my lifetime going forward.

SCOTT BESSENT: So, under those assumptions, what should allocation for an endowment, a foundation, a pension fund or family look like over the next three to five years?

STANLEY DRUCKENMILLER: Well, thanks for that one. I don't know. I think the most important message with regard to endowment is to make sure the management of whoever they're endowing understands that the 7% and 8% assumptions on returns in terms of running their business are going to be extremely challenged. That would be my

first message. When you have stock multiples where I mentioned, when you have government having gotten into the equation, when you look at history in other periods, there's going to be payback for this in terms of higher taxes and so forth. I just don't see the equity market being materially higher – if not lower – in five years. Interest rates, it's hard to get a return with 10 years at 70 basis points. So I think that's going to be a challenge. In terms of how you deal with that, I'm not sure.

I just think every asset class looks tough. I do think – I'm hopeful – the disruption we've seen in the last seven or eight years, which has led to so many opportunities with new and exciting young companies, I don't think that's going to stop and I think that could accelerate. So I do think the ability for alpha within the equity market may provide opportunities that if there's great money managers out there, I think, I'm optimistic that they could shine much more on a relative basis and hopefully on an absolute basis than has been apparent the last seven or eight years. I've started being negative on hedge funds publicly as soon as I left Duquesne. And I'd say on a relative basis I'm as bullish on long-short relative to everything else as I've been in ten years. Having said that, that's partly because I'm worried about everything else.

SCOTT BESSENT: If we could just go back for a minute, your thesis that Steve Mnuchin is going to chew up all of Jerome Powell's liquidity, what would be a couple of signposts that everybody on the call today could look for?

STANLEY DRUCKENMILLER: I actually think it would show itself in the stock market. For reasons we went over earlier, I don't think it would necessarily show up in the bond market. In fact, I believe from the inception of QE1 that QE was bearish for bonds and bullish for stocks and QT was bearish for stocks and bullish for bonds, which was counterintuitive to our government officials that when you shrink the bond supply, bond yields could actually go down. My theory was demand for bonds will go way up because demand for risk is down. I just think the market action itself would tell you that but it's something you can monitor.

If you look at corporate issuance and you look at Treasury issuance and then you look at the Fed's table, they tell you what their expectations are and you follow that, but you have to be extremely open-minded that if we go to 2400 or 2200 or wherever, that the Fed could turn on the gas again and then you have to weigh the two. But look, I'm not a scientist, I'm a commonsense guy, but I just don't think you can take massive amounts of money and give them away to people on a non-investment basis, have Steve Mnuchin and others allocate capital to zombie companies and say this is all right and it's going to work out forever. I just doesn't make any sense to me.

CHAIRMAN MARIE-JOSÉE KRAVIS: I hate to interrupt this conversation because I know that there are many other questions that need to be answered and discussed, and

I know that our members are looking forward, would have loved hearing more from you, but unfortunately, I have to interrupt this conversation. Thank you, Stan, for being as candid as always and so insightful. And thank you, Scott, for leading a really informative conversation. Thanks again to all our members for being here. Going forward, events such these will continue to be scheduled. There's an event that's scheduled next week with Marty Lipton where we'll discuss governance in this era of Covid-19 and also ESG-related regulations. And just please keep monitoring our website and we'll continue to communicate with you also by email. So thank you. Stay safe, stay tuned, and hope to have you all soon with us.