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Dr. Ed Yardeni
President, Yardeni Research

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Webinar

Moderator: Lisa Abramowicz
Co-Host, Bloomberg Surveillance

Introduction

President Barbara Van Allen

Good afternoon and welcome. This is the 760th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. Recognized as the premier nonpartisan forum in the nation, The Economic Club of New York stands as the leading platform for discussions on social, economic, and political issues. And actually we're proud of the fact that for more than a century, we've hosted over 1,000 preeminent guest speakers, contributing to our tradition of excellence which continues up to and includes today.

I want to extend a warm welcome to students who are joining us virtually from Fordham University, the NYU Stern School of Business, and the Graduate Center, as well as members of our largest-ever Class of 2024 Fellows – a diverse group of rising, next-gen business thought leaders who have been sponsored by members.

I'd also like to take this moment to actually honor our special guest today, Ed Yardeni of Yardeni Research, a provider of global investment strategies and asset allocation analysis and recommendations. He previously served as Chief Investment Strategist of Oak Associates, Prudential Equity Group, and Deutsche Bank, their U.S. equities division in New York City. Ed was also the Chief Economist of C.J. Lawrence, Pru-

Bache Securities, and E.F. Hutton, and taught at Columbia University's Graduate School of Business, and was an economist with the Federal Reserve Bank of New York.

Ed earned his PhD in economics from Yale University in 1976, having completed his doctoral dissertation under Nobel Laureate James Tobin. Previously, he received a master's degree in international relations from Yale. He is frequently quoted, as many of you know, in the financial press, including *The Wall Street Journal*, the *Financial Times*, *The New York Times*, *The Washington Post*, *Barron's*. And he appears frequently on Bloomberg Television, CNBC, and Fox Business. He's published several books including 2018's *Predicting the Markets: A Professional Autobiography*, and 2020's *Fed Watching for Fun & Profit*.

The format today will begin with opening remarks. I'm sorry, actually I think we're going to go right into the interview. So we're going to pass on that and go right into a conversation with fellow Club Member, Lisa Abramowicz. Lisa is Co-Host of the Bloomberg Surveillance show, and we're honored to have her as our moderator today. We're going to end promptly at 12:45. And as a reminder, this conversation is on the record, and we do have a fair amount of media on the line this morning.

In addition, just for our members that are joining us, please know the chat box is also available to you. You can enter questions directly for their consideration if time permits.

So many, many member questions, by the way, have already been received and shared with Lisa. So thank you to the many members that did submit. And with that, I'm honored to pass it over to you, Lisa, to get the conversation going. Thank you.

Conversation with Dr. Ed Yardeni

LISA ABRAMOWICZ: Barbara, thank you so much for that. And I've got to say, right now there is nobody better to be speaking to than Ed Yardeni, who really has had the correct take on markets, talking about the Roaring 2020s as people were talking about recession, saying that he didn't see what they were seeing. And now, Ed, you're about to publish a piece in the *Financial Times*, and I want to start there with why economists have gotten this cycle so incredibly wrong. So why? What have people been missing so much, Ed?

DR. ED YARDENI: Well, I think expecting a recession was perfectly logical. It kind of made sense. The Federal Reserve increased the federal funds rate by 525 basis points, basically from zero, over a very short period of time, from March of 2022 to basically the summer of 2023. It would make sense that that kind of dramatic tightening of monetary policy, restriction of monetary policy would cause a recession.

Along the way I concluded that maybe the Fed wasn't just tightening but it was actually

normalizing. It was bringing interest rates back up to levels that the economy had shown its ability to deal with before, before the Great Financial Crisis through the Great Virus Crisis. That was what I called the Great Abnormal Period of ultra-easy monetary policy. There's no point in debating whether that made sense or not, but the reality is that period is behind us. We're no longer in an abnormally low interest rate environment. And the economy has proven itself to be perfectly resilient in the face of the level of interest rates we have.

And I think a lot of that resilience obviously has to do with the consumer. The consumer is a big part of the story. And over the past couple of years, economists have been saying that that's not going to last, that consumers had piled up a bunch of excess saving. I think there's a Federal Reserve estimate that \$2 trillion was the peak excess savings, and now in March of this year, the excess savings was down to zero. So I guess any day now, we should see a pile of economic indicators suggesting that the consumer has got to retrench because they've got to save some more.

But I think what that misses is the demography of our economy. We've seen the Baby Boomers starting to retire and they're sitting on \$76 trillion. So on one side you have \$2 trillion of excess savings that's gone to zero. On the other side, you've got a bunch of Baby Boomers that are retiring, and retirement is a dramatic change in one's lifestyle. You're not saving out of earned income anymore. If you're lucky enough, you've saved

enough so that you can live on interest and dividend income. And if you're not, then you start to go into the nest egg here. And the Baby Boomers are spending, and they're spending in a lot of services. And guess what, those are the areas where employment has been very strong so it's kind of been feeding on itself. But there's lots of other explanations for why the recession didn't happen, but I think that's the most important one.

LISA ABRAMOWICZ: So taking a step back, there's a lot to unpack there. I want to start with the idea of where Fed rates are now and that they've been normalized. Are rates restrictive as Federal Reserve Chair Jay Powell says, as we've heard from every of the 1,500 Fed speakers we've had over the past couple of days?

DR. ED YARDENI: Well, the Fed is not restrictive if you look at the pace of economic growth, if you look at the stock market being at an all-time high here, all-time high around the world. It matters a great deal, not only to our financial markets, but to overseas financial markets. The dollar has been strong so I guess that's somewhat restrictive, but it hasn't been so strong as to really restrict anybody's exports from the United States. So if you look at the inflation rate, it has come down, and I guess you can say that the federal funds rate is restrictive enough to bring inflation down.

But, look, I think what we've learned over the past couple of years is inflation is a very

complex process. And a lot of what we've experienced in the past couple of years has had to do with, guess what, the pandemic. And that has to be factored into people's thinking on how the economy is performing. And it's clear, I think we all know that there were supply chain disruptions that have been ameliorated. And as a result, that's helped to bring inflation down.

But a lot of economists had this notion that the only way to bring inflation down is with a recession. And so they thought the Federal Reserve would have to raise interest rates until we got a financial crisis that led to a credit crunch that led to a recession. And so far that hasn't happened. And yet inflation has come down.

And I think one of the things that economists missed is China. We didn't have to have a recession because China has had a significant recession, particularly in their property market. And as a result, they've been trying to stimulate their economy by, guess what, exporting more, particularly electric vehicles and other kind of state-of-the-art green technologies. And the prices they're charging have actually been deflating. So they've been exporting deflation on the goods side to the United States, and meanwhile we're just waiting for the service inflation rate to come down, particularly shelter. And by every indication, it should continue to come down.

So I think when you put all those things together, you come to the conclusion that, well,

interest rates are neutral. They're kind of where they should be. The so-called real interest rate seems to be where we are now because in that kind of environment, you're supposed to be getting a growing economy with falling and stable low inflation, which I think we're approaching.

LISA ABRAMOWICZ: This really raises the issue of why are people talking about rate cuts. I know you don't think they should be. You think that there's no reason to be talking about cutting rates, even insurance cuts or mid-cycle adjustments or any of those types of things. So what are you looking for to justify that type of move at a time where Jerome Powell seems like he's pretty committed to, at some point, as soon as they have a window of opportunity, going?

DR. ED YARDENI: Yes, again, I don't really understand that. I certainly didn't understand why the widespread view was that the markets were anticipating six to seven rate cuts of 25 basis points each starting in March. That was where we started the year. And then gradually those started to become fewer and fewer rate cuts and later and later. And here we are with economists now talking about higher for longer. I would prefer to call it normal for longer. And so I don't have any particular reason to believe that the Fed really needs to lower interest rates.

Now, of course, if you're a believer in the real rate, then you look at the fed funds rate,

subtract out the inflation rate, and so you know if we don't lower the nominal federal funds rate in an environment where inflation is coming down, then we're becoming more restrictive. We've seen some Fed officials express that view.

And, first of all, I'd like to kind of question the idea that the fed funds rate, excluding or subtracting out the inflation rate, means anything. I mean the fed funds rate is an overnight rate, and we're taking out a year-over-year percent change in the inflation rate? I mean what does that mean? Who possibly acts on that kind of variable? I mean clearly real bond yields matter, but the Fed doesn't control real bond yields. It controls the federal funds rate. So this notion that the fed funds rate might become too restrictive in a real sense, if inflation comes down, I think we have to just kind of wing it and see how that plays out. But right now it looks as though we've seen quite a bit of decline in inflation and interest rates haven't come down.

Look, the other thing, Lisa, is I think there's been a lot of what I call technical analysis of macroeconomic data. People look at charts and say, oh, look at that, the fed funds rate, once it peaks, it comes down pretty quickly. The plateaus don't last very long. And I think what people don't, a lot of economists really just don't appreciate is what causes recessions. What causes recessions is the Fed tightens monetary policy to the point where something breaks. That's why the yield curve inverts. People start buying ten-year bonds at 4%, knowing that they could buy two-year at 5%. Why would they possibly do

that?

Well, because they figure they're not great market timers and at some point past 5% the economy is going to break. Something will break in the financial system that will lead to a credit crunch. And it's credit crunches that cause recessions. The other two explanations for recessions is a spike in oil prices, which we had in 2022 – but so far oil has been quite calm – and of course, bursting speculative bubbles. And we saw lots of tiny speculative bubbles burst in 2022. The stock market had a bear market. And yet here we are with the economy doing fine and without an official recession with real GDP at an all-time record high. So, again, I don't understand why Powell has been signaling that he'd like to lower interest rates if, in fact, interest rates are where they should be empirically.

LISA ABRAMOWICZ: And we will get to oil and to China and some of the international policy. I know that a lot of viewers had questions in advance about a number of those issues and the ramifications economically. But before we do, this 5% target, I want to sit on that for a second. Or not target, but this idea that if longer-term rates get to 5% something could break. But they could get to 5%, right, without something breaking and if you have this curve inversion. I just want to set it up this way. I was speaking with Mike Wilson of Morgan Stanley today. And he explained what he got wrong this year and why he came in with a bearish view.

DR. ED YARDENI: Welcome to the bull camp.

LISA ABRAMOWICZ: Hold on, not exactly maybe. I mean maybe, but we'll see. There's a lot of asterisks there. One of them is he didn't fully, in his view, appreciate just how stimulative the fiscal policy was, as well as in some ways, monetary policy, not just with respect to rates, rate policy that is restrictive, but with respect to their balance sheet and the repo lines and all of that that really added to the liquidity profile. He said that if bond investors start to really push back at how we're financing that fiscal stimulus, that would cause equity valuations to come down significantly. Do you agree?

DR. ED YARDENI: Well, that sounds bearish.

LISA ABRAMOWICZ: It was, again, a very nuance...carry on.

DR. ED YARDENI: It's very nuance, okay, that's fine. That's fine. Look, my view on the bond yield is it's normalized. It's back to 4 to 5%. That's the kind of range we should be in. That's where we were before the Great Financial Crisis. The anatomy of the bond yield, I just wrote about it in our publication, *Quick Takes*. And I said, look, it's pretty simple. The TIPS yield, the 10-year TIPS yield, which we have quoted in the marketplace on a daily business basis, and that's been running around 2%. And I think it'll continue to run around 2% reflecting an economy that's resilient and growing. And the expected inflation premium that you add on top of that, I think, is where it is about now, 2, 2½%. That gives you, 4, 4½%. You know, I can widen the range and get 5% in there, but I think

all that reflects a normal interest rate environment.

Now, of course, some things are going to blow up along the way, maybe downtown office buildings that have to be refinanced. That's already been happening. I think it's also important to realize that a lot of this exposure isn't just to the banks but there's a lot of private money invested in these kinds of assets. And for them it's a haircut on our rate of return. It's not suddenly that they can't lend. I think there could be problems in some of the small banks, but we're not seeing it. I mean the Fed really stabilized that whole situation. In the past, an inverted yield curve accurately predicted a financial crisis, a credit crunch, and a recession. This time around the yield curve, inverted yield curve has accurately predicted a financial crisis. We had that last March, on March 10, it was a Friday. On March 12, it was a Sunday, the Fed came in with a liquidity facility that stabilized the situation really well.

You know, Lisa, the Fed is really good at playing whac-a-mole in the credit markets. Ever since the Great Financial Crisis and the Great Virus Crisis, the Fed has figured out how to create liquidity facilities to keep things from blowing up. So if financial crises don't turn into credit crunches, you don't get recessions in that kind of scenario. So I think, you know, I may be pushing my luck here, but I think the economy can live with 5%.

By the way, we had 5% last October, at the end of last October, and that's because we had some really sloppy auctions. I mean clearly I'm not going to put lipstick on the pig of the federal deficit. But Janet Yellen, I went to Yale six years after Janet Yellen was there,

and I owe her a lot because I studied from her Xerox notes and it got me through Tobin's class. Janet Yellen is very clever. And on November 1, the Treasury announced, well, if you don't like our bonds, we're going to sell less of them in auctions and we're going to give you more bills.

Over the past year, \$2.5 trillion of marketable securities have been issued by the Treasury. \$1.9 trillion of that was bills. Bills are really easy to finance. And money market funds are sitting in about a half a trillion worth of repos that, depending on the incentives, could easily be converted into Treasury bills. So for the here and now, I don't see a real problem with bond yields suddenly gapping up to 5% and higher and causing a calamity for the economy.

LISA ABRAMOWICZ: You keep talking about the economy. And just before we move on, for one second, does that mean that you think that stocks can actually continue to climb, even if Treasury yields on the long end get to 5%?

DR. ED YARDENI: I think we've seen that the stock market has learned to live with high interest rates, or normal interest rates I should say. I have to remind myself that these are normal because we're all used to such a low interest rate environment. But yes, I think the stock market is doing quite well here. I think the stock market started to discount what I've been calling a Roaring 2020s scenario since the beginning of the decade. I didn't look too smart there for a while with the pandemic and all the other calamities that have occurred here. But I think the stock market started to discount the

Roaring 2020s scenario – I know exactly when – November 30, 2022, which is when Open AI introduced ChatGPT and artificial intelligence has been the rage ever since.

But I'm not, you know, I'm not of the belief that AI is the only reason why the market is up, but there's a lot of other technologies that are very user-friendly, they're cheap, and they lend themselves to increasing not just the physical power or strength of humans as previous technologies have, but most importantly it's increasing the power of the brain. It's augmenting the brain. And so I think the potential for productivity gains is just tremendous over the rest of the decade, and I think it's productivity that's going to be the answer here.

And to Mike Wilson's issue about the Federal deficit, I think it is a problem. I think debt is a problem. But if we get better than expected productivity, we'll get better than expected growth, lower than expected inflation, the Fed might very well, in that situation, at some point decide why not lower interest rates and take some of the pressure off the deficit. They're not supposed to be concerned about fiscal policy, but it might be an issue.

So along the way here it looks to me as though there's certainly a case to be made for a strong stock market. And as you know, Lisa, I've been talking about 5400 for the S&P 500 by the end of the year. And I'm kind of working it out, it might be by the end of next week the way things are going. We're already at 5300 and 5400 looked pretty delusional about a year ago. And now I'm also talking about 6000 on the S&P 500 in 2025 and 6500 by 2026. And then I upped the ante here, and I'm talking about 60,000 on

the Dow by 2030 and 8000 by 2030. So I've thrown a lot of numbers at you hoping that you won't remember these numbers if they're wrong. And if they're right, I'll bring them to your attention.

LISA ABRAMOWICZ: It's typically how it works, but it's always appreciated. I appreciate the idea of benchmarks along the way to just kind of look forward in terms of a direction. Given your discussion around artificial intelligence and some of these technologies, as an economist, as a market prognosticator, how important is Nvidia after the bell tomorrow?

DR. ED YARDENI: Well, I'm glad that I had this opportunity to address this audience with a lot of economists because when I studied Samuelson, I remember reading right in the introduction there that economics is all about the optimal allocation of scarce resources. And is such a depressing concept. I mean, really? There's only so much out there that we can all share and somehow or other we've got to share it.

And, you know, a free market will do that, or a highly controlled government market will somehow allocate these resources. I think economics is all about the price mechanism pointing out where there's opportunities for entrepreneurs to come in and make a killing by coming up with innovations that give the consumer better products, better services at lower prices. That's what technology does. It solves problems.

And we've seen that over and over again. And one of the biggest problems we have right

now is a shortage of skilled labor. I know there's a lot of illegal immigration going on here, and I guess some people call them newcomers, to be more political correct. But we do have that issue that may affect the population and the labor force, but then it also will depend on who the next president is. But for here and now, companies are certainly struggling with labor shortages of skilled workers and technology is the only answer they have for addressing that question. Because for a lot of them, business is good. And at least my view is that when you look at the stock market, you really have to look at all stocks as technology companies. They either make it or they use it. If they don't use it, they're going to be, they're going to lose it. They're going to be out of business.

LISA ABRAMOWICZ: You talk about the election cycle, so let's go to politics. You were talking about China, and I am curious about the call, and what you see now in terms of where they are. But before we get there, the idea of tariffs that have been coming very much to the fore, regardless of who wins. How do you sort of frame that out at a time where a lot of people say it's going to be inflationary one way or another. It's just the degree...(audio issue)...

DR. ED YARDENI: Well, I'm often reminded when I bring up the Roaring 2020s that if I'm making an analogy, that the 1920s ended rather badly with the Great Crash and the Depression. And the reason for the Great Depression is still very much a controversial one, but I'm of the belief that one of the big reasons was because of the Smoot-Hawley Tariff that was passed in June 1930. It just completely shut off world trade. So tariffs, generally speaking, are not good for global economic prosperity. Globalization was great.

Unfortunately, the Chinese took advantage of that situation and now we have a lot of backlash against China in terms of raising tariffs. And that occurred under Trump and now it's occurring under Biden, so it's clearly just become a bipartisan issue. It would be a much better world if we didn't have tariffs but the world is certainly not a perfect place to say the least.

So I think that if we do move towards more tariffs, we're really talking about continued division of the world between China and its friends and supporters and the United States and the West basically. And then that's a scenario, there could be more costs, and it could be more inflationary. For now, China, we're still buying lots from China, and China is exporting deflation to the United States. That's the way it is right now. We'll see what unfolds here depending on the tariffs. I can't predict what the political system is going to come up with. Once I have that in sight, then I can maybe make some predictions about what that means for the global economy.

But for now, we have to factor in that some of the inflationary consequences of deglobalization, if that continues, would be offset by onshoring. And onshoring doesn't necessarily mean more expensive. It could mean more productivity. It means lower transportation costs. It means lower energy costs to produce things that can be produced in the United States.

LISA ABRAMOWICZ: To that point, do you think the Fed doesn't have any more visibility into the political cycle than any of us do, and they don't want to. They keep saying we're

not political. But do you think it's appropriate then to really engage either rate hikes or rate cuts ahead of an election that potentially, depending on what policies come out of it, could be either inflationary or not?

DR. ED YARDENI: Right, right. Yes, again, I think just from a non-political perspective, I don't see, from a purely objective economist's projection – I don't know if there is such a thing as an objective economist – but my objective analysis is that there's really no reason for the Fed to lower interest rates. There's no reason for the Fed to raise interest rates. I think we'll be at 2% on their PCE inflation rate by the end of the year. I think we're on course to get there. I think it's just going to happen with interest rates left at these levels.

I hope they don't lower interest rates. Because if they do lower interest rates, they're going to get a melt-up in the stock market. And instead of the 2020s being the Roaring 2020s, it'll be let's party like it's 1999. Remember that Prince song? He actually came up with it several years before the 1999 party. And that's the risk, I think, of lowering interest rates, is creating a melt-up in the stock market. Look how well the stock market's done with interest rates, the Fed just saying we're not raising interest rates.

LISA ABRAMOWICZ: Going back to the idea of China, aside from just the question of tariffs and the increasing geopolitics, I was speaking with Max Kettner of HSBC today, and he thinks that one of the surprises to the upside in equity markets has been, in some ways, the resilience or the recovery of China, which had the recession before us, as you

said. Do you see that as something that is stimulating the broader world beyond just American exceptionalism, that does give fuel to emerging markets and other areas?

DR. ED YARDENI: Well, excuse me for being this blunt about it, but I think China is the world's largest nursing home operated by Maoists. That's the way I look at it.

LISA ABRAMOWICZ: Tell us how you really feel.

DR. ED YARDENI: I haven't been, you know I'll never be able to visit China. But, look, the government is all-controlling. They change the rules as they like. They play tough and then if tough doesn't work, they play nice. And I just don't think it's a good place to do business. It's not a good place to invest. Having said that, we did a week ago say that we did think that the Chinese stock market has bottomed. Even the property market has bottomed because they're doing whatever it takes to stabilize their economy in the face of the biggest property bubble bursting of all times. And they're buying apartments. I mean it's pretty radical.

Here in the United States we did it with a capitalist system where investors bought houses that couldn't be sold and they rented them out. There, the government is buying property. And it's going to work, it's going to stabilize the situation. But the property market accounted for about 20% of the economic activity. I don't think that's coming back.

I mean the price of copper has been going straight up. Maybe people who are much more knowledgeable than I am about that conclude there's going to be a lot of copper demand for building more apartments in China. But, on the other hand, the governments are going to have a lot of apartments to rent out and to sell at a discount, at a loss. So I think China's in trouble. I think China's got a horrible demographic profile, thanks to the Chinese Communist Party's program of having one child. They can't seem to get people to spend more. They still have really significant negative wealth effect between property prices being down and also between their stock market being down. Maybe it becomes less of a negative wealth effect. But I think the demographic factor is going to continue to keep consumers weighed down.

And again, my friend Janet Yellen, we met once, so we're good friends. But she's a smart lady and she went over to China a month or so ago and she said, look, don't solve your problems by dumping electric vehicles in global markets. And she left and then they kept dumping electric vehicles in global markets.

LISA ABRAMOWICZ: And they went to France and said can we put them here? And you have Germany that says we don't want to put too many tariffs on because we want to make sure that our car companies can have access to China as well. I just wonder if, you know, the view that you have on China still is the dominant one for emerging markets, or whether it's a separate call completely in a way that it didn't used to be? Considering that it used to be that China was the big fish there.

DR. ED YARDENI: Yes, well, look, everybody's entitled to their own decisions of what to do about China – whether you just keep it strictly as business or you get concerned about the moral issues or if you just view the political situation as an untenable one for investing. But I think China kind of stands out as an aberration among emerging economies. Nothing really radically has changed in other places, other than a lot of producers are diversifying their production away from China, and so that's benefitted, as we all know, Vietnam, India, Mexico, and so on. I think some of the emerging markets are commodity plays. Brazil, for example, is definitely a commodity play. Canada has a developed economy obviously, and their stock market, they're basically a commodity play.

I think if the global economy gets some stability and some stimulus from the fact that maybe China is not going to continue to weaken, then commodity prices might continue to improve here. We've seen gold, silver, and copper go up for no obvious reason that I can come up with. The global economy is kind of muddling along. Copper may be an AI play just the way utilities have suddenly become AI plays. Everything is an AI play. If anybody wants to buy Yardeni Research, we're an AI play.

LISA ABRAMOWICZ: Well, my AI persona is enjoying speaking with your AI persona. The discussion around copper, you seem skeptical of just how much it's gone up. It hasn't been necessarily vindicated in the actual industrial data. And I've heard this from other people as well. Even the utilities as an AI play, there's a question of how long it's going to take to get shovels in the ground and actually get the permitting and etc. to

actually get greater support on artificial intelligence.

DR. ED YARDENI: And it's going to be a lot of capital spending. It's going to be a lot of spending before you finally get the juice out of it.

LISA ABRAMOWICZ: So do you not necessarily buy into what's going on with copper and some of the other industrial metals?

DR. ED YARDENI: Well, copper does have a tendency to go straight up and straight down. It's very volatile. It's a great speculative metal. I think, you know, there's some suggestions that the Chinese government is buying more gold, silver, and copper, diversifying. We're not convinced of that. I think copper has kind of got the AI fever effect. Everybody figuring out that we're going to need a lot of data centers. I mean we were going to need a lot of data centers anyway because that's what Cloud computing is all about. And now we've layered in the demand from AI software for more computing power, more storage, and therefore more electricity. So, you know, at this point, you know, once copper gets going to the upside, you start to hear about all kinds of crazy numbers and maybe this time around that'll be the case. But \$5 from \$3.50 is quite an impressive move. It got my attention.

LISA ABRAMOWICZ: So you wouldn't necessarily be piling it?

DR. ED YARDENI: I missed it.

LISA ABRAMOWICZ: I think a lot of people did.

DR. ED YARDENI: Yeah, I'm kicking myself. I saw it on the charts. You know, I'm an amateur hobbyist when it comes to technical analysis, and I could see the breakout, but I just couldn't see the extent to which it would be just an awesome move to the upside. And that's one of the things that strikes me in these markets, the stock market since October of last year has been on a vertical ascent, to the upside. So we have seen some of these moves which suggest there's a tremendous amount of liquidity and there's a lot of speculative money that's willing to churn around pretty quickly.

LISA ABRAMOWICZ: Which goes to the question about gold. You said that maybe that central banks, in particular Chinese, the Chinese central bank, buying gold to diversify away from dollars. You said that you're skeptical of that. But do you get the sense that maybe this discussion of the whole world diversifying away from the U.S., away from the dollar, has been just fundamentally challenged by the flow data, which seems to suggest that people are still buying U.S. assets in droves?

DR. ED YARDENI: Well, actually we are just writing a piece for tomorrow about that and looking at China's holding of the Treasuries, and the Treasury does have data on that. But I just hired a fellow who used to work for the *Wall Street Journal*, Eric Wallerstein, and Eric's a real whiz kid when it comes to this kind of stuff. And he's pointing out that you really have to factor in Treasury purchases by Belgium and Luxemburg also when you look at China because they do have some other brokers in other countries that they

operate through. So it's not clear that they're selling Treasuries to buy gold. But that doesn't mean they're not buying gold. It doesn't mean that they're cutting back on maybe some other assets that they would buy.

But, look, Lisa, this notion of de-dollarization, of getting away from the dollar, it's been around for a long time. How long has the SDR been around? And that's supposed to be the currency that, the IMF currency that would replace the dollar as a reserve currency. The fact of the matter is the dollar is the largest, the U.S. economy is the largest economy in the world. As crazy as the politics are here, we're still politically more stable and our business environment is more honest than a lot of others. Not to say that we don't have our levels of corruption.

But the reality is that a lot of people still want to be in the dollar, and the dollar has been quite firm here. So I think as long as that's the case, the market is telling me that we're not going to see de-dollarization. But that doesn't mean, though, that the enemies of the United States, like Russia and North Korea and, you know, the so-called axis of evil, doesn't want to get away from the dollar and are buying gold. They could very well be the actors behind all this.

LISA ABRAMOWICZ: You talked about some of the other potential catalysts too, some sort of disruption or recession. You mentioned oil prices climbing. A huge spike in oil prices could do it, in terms of crimping consumer spending power just in general disrupting the economy. We haven't seen that and so many people have been shocked

about that, given the hot war, given all of the potential volatility. How much do you think that this is a new period of time where there is greater immunity, at least in the U.S., to geopolitical risk based on the 13 million barrels of oil that we're pumping every day domestically?

DR. ED YARDENI: Well, you know, I think President Biden, during the campaign, promised to shut down the fossil fuel business, or at least he implied that. And here we are producing basically at a record 13 million barrels per day, and we're also producing more and more natural gas. I know the Biden administration had cut back on that, but that seems to be a short-term election ploy, which might actually be lifted if he's reelected. And under Trump, it would certainly be lifted. So we produce an enormous amount of energy, and we've got natural gas real cheap here. But all in all, we are seeing a world where the fossil fuels are still there, and they're still very much in demand.

But they depend on overall global economic activity. And Europe's been slow, China's been slow. The U.S. has been doing quite well. And all in all, the supply/demand balance, when you factor it in, has been such that a major disruption in the Middle East, a horrible situation in the Middle East, so far hasn't affected the price of oil. Even when Israel and Iran were lobbing missiles at each other for a couple of days, the oil prices, I guess, I mean ever since then there's been de-escalation between the two of them, for now anyways, and the oil premiums seem to have been something in the neighborhood of \$10 and it's come down.

LISA ABRAMOWICZ: So that's a detail, that's something specific to just this particular situation? Or do you view this as a larger sense that there isn't going to be or can't be that big of a disruption that could actually cause what we saw in the 1970s?

Dr. ED YARDENI: Well, you know, I have been talking about three alternative decade comparisons. There's the Roaring 2020s is a comparison with the 1920s, productivity, increasing standards of living and so on. And then I've been talking about the possibility of a 1990s scenario, too much of a good thing, we had lower interest rates, we had a melt-up. And then the other one is the 1970s all over again. So 60% for the Roaring 2020s is my subjective probability. And then 20% for the 1990s melt-up. And then 20% for the 1970s. Lisa, I hope that added up to 100.

Anyway, the bottom line of it is, it could still be the 1970s. I give it a 20% subjective probability. You know, Ukraine starts more aggressively taking out Russian oil facilities and things really heat up once again between Israel and Iran, and we start to see some real impact on the oil supplies, we could have another spike. But that's not my base case. That's a low probability scenario in my mind. You know, you take the 60 and 20, the 20 for the 1990s, and it's a bull market. One is a bull market without much correcting or certainly not a bear market anytime soon. A melt-up unfortunately would be followed by a meltdown, as we learned in 1999 and then the early 2000s.

LISA ABRAMOWICZ: How vulnerable is this market to real policy shifts? And I say this at a time when a lot of people, just going back to where we began, this idea of what

people got so wrong. People got some of the fiscal stimulus wrong. People sometimes underestimated how much of the industrial policy shift we were going to see. And people underestimated immigration and what that would do in terms of providing labor without some sort of inflationary bent. How vulnerable are any of those prongs to real policy shifts that could materially change the economic outlook in the short term?

DR. ED YARDENI: Well, I think that the stock market has proven to be remarkably resilient to policy, both monetary and fiscal policy. And, as you said, the monetary policy was viewed as restrictive. A benefit of hindsight, we should view it as more normalized. Fiscal policy was highly stimulative. Lisa, we've never had this kind of stimulus before a recession that didn't happen. In the past we'd always have a recession and then the politicians, the policymakers would get together, and by the time they came up with either tax cuts or spending increases or both, by the time they got around to doing that, the recession was already over and the stimulus might have helped the recovery, but it didn't do anything to get us out of the recession. It was more the Fed panicking over a financial crisis and a credit crunch, lowering interest rates that stimulated the economy.

This time around, we had a couple of trillion dollars of fiscal outlays in three different acts passed by the Biden administration that have been extremely stimulative for the economy. Look, I worry a lot about the partisanship in our country. I don't like what I'm seeing. I wish we would get along better and to talk to each other and try to find areas of agreement. But when I look at the stock market, I'm impressed by how well it continues to do despite Washington.

It's always been my view, when people ask me about, aren't I worried about the chaos in Washington, I said, you know what, the U.S. economy, the stock market has demonstrated that what they're focusing on is us. Those of us who go to work every day don't have time to play politics and we just try to make things better for ourselves, our families, our country, and we do that, collectively. There's a few hundred million people doing that every single day. And we factor in the mess that the politicians are creating, the regulations that they put in our way. And notwithstanding that, the U.S. economy has got record real GDP, real consumption per household is at an all-time record high. And all in all, the economy is doing great. You wouldn't know that by some of the confidence measures, but consumers are spending. And that, at the end of the day, really demonstrates that they are confident.

LISA ABRAMOWICZ: We just have about a minute left. And I want to ask you, we just finished earnings season, and we're coming to the close. Is there anything that has surprised you about any of the guidance from companies or the commentary? Was there anything that stood out as something that kind of was the overriding message?

DR. ED YARDENI: Not really because I think it helped to get the last couple of years right in terms of not expecting a recession. It was kind of a funny environment. Usually economists do very well when they are the one or two, are the only ones who see a recession coming. This time around there was only a few of us who said, yeah, it's going to be Godot, it's going to be a no-show. And so that helped my thinking.

I mean I've been; I haven't changed my earnings outlook for a while. I was looking for \$225 earnings per share for the S&P 500, \$225 for last year. It came in at \$222. And there were some, a lot of people talking about \$200 or \$180. And then for this year, I've been talking about \$250 for a long time, and I'm still there, \$270 for next year, and then \$300 for 2026. And I'll go all the way out to 2030 and tell you I think we can get to \$400 earnings per share for the S&P 500 times a 20 multiple could very well get us to 8000 on the S&P 500 and 60,000 on the Dow. So with that, I appreciate this great opportunity you gave me, Lisa.

LISA ABRAMOWICZ: Ed Yardeni, it's always a pleasure. Thank you so much. Really wonderful.

PRESIDENT BARBARA VAN ALLEN: Well, Ed, thank you. And Lisa, great interview. Really, really insightful too. A lot for us to think about. Finishing out May, we have two events actually occurring the same day, May 30th. First is with our Rebuilding New York City Series, we have a breakfast with the Chief of Staff of the Mayor, Camille Joseph Varlack. But that same day, we have, as you can see on the screen, John Williams, and he will be joining us for a luncheon.

We then follow up with that, on June 4th, we'll have back the famous duo, Glenn Hubbard and Larry Summers, with their thoughts on the economy. On June 10th, Oskar Eustis, the Artistic Director of the Public Theater in New York, will be joining us. And June 13th, we're delighted to be hosting Treasury Secretary Janet Yellen, who will also receive the

Peter G. Peterson Leadership Excellence Award. And that, of course, is an award that the Club gives out annually, and so we're delighted that she will be attending and obviously giving remarks and doing an interview.

And then we'll end the month, on June 17th, with Strauss Zelnick, who is a Member and Chair and CEO of Take-Two Interactive. And that will be June 17th. And then we have coming from the Federal Reserve Board of Governors in Washington, Lisa Cook will join us again on June 25th. And I do want to mention there's another event that you want to pay attention to that's not yet in the calendar. We hopefully will get a confirmation this week, and if it happens, again keep your eye on our calendar for next month. As the presidential election heats up, we will be inviting both party nominees to speak, and so keep on the lookout for that. And again, all of our events are on the website.

As always, I'd like to take a moment to thank members of the Centennial Society joining us today as their contributions continue to provide the financial backbone of support for our programming here at The Economic Club of New York. So thank you to everyone for attending today. Thank you so much, Ed and Lisa, for joining us. Please everyone, have a great and safe Memorial Day Weekend, and we look forward to seeing everyone again soon. Thank you.