

[Transcript] All-In with Chamath, Jason, Sacks & Friedberg / E121: Macro update, Fed hike, CRE debt bubble, Balaji's Bitcoin bet, TikTok's endgame & more

What are you eating, Kreeberg? Is that buffalo jerky? What is that?

It's a red pepper.

It is not the bull tongue.

I didn't have time for lunch. I got pistachios and I got a red pepper.

Oh, me too. Oh, wait, wait, look at this.

Oh, is that our branded pistachios?

Are these the best pistachios?

They're the best.

Salt and vinegar, yeah.

Salt and vinegar, yeah, yeah, they're the best.

Are those unpeeled pistachios?

These guys are so rich. People peel their nuts.

People have been peeling my nuts since the Facebook IPL.

Hey, everybody. Welcome to episode 121 of the World's Greatest Podcast, the All-In Podcast with me again.

Again, of course, the dictator himself, Chamath Polyapatia, the Sultan of Science, David Friedberg, and the rain man himself, yeah, definitely David Sacks.

Gentlemen, how are we doing?

You, the world's greatest genuflector.

Strike, strike, strike.

The world's greatest moderator is here.

You guys, I got to tell you something. The grift is on.

A lot of corporate gigs for me to moderate.

I don't even have to prepare. I just show up and moderate.

Oh, so great.

What is an example of such a gig?

There's a lot of corporations and conferences that pay a pretty penny to have the world's greatest moderator come and interview people.

This is like the used car parts association of America having a convention zone.

I did one with like 1,000 litigators at an attorney conference for like the SaaS software they all use.

And it was a wonderful fireside, you know, it's just great.

This is like the grift is on.

Do you have to fly commercial or do they fly private?

It's commercial at this point.

Yeah.

What does your, what does your writer say?

What kind of, do you ask for spice salted macadamia nuts?

I do not have them feel my nuts.

No, what I do is I blend the travel cost into the speaking fee.

And then nobody knows when I'm in or out, what hotel I'm staying at or whatever.

But basically I'm back on the road, folks.

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I'm back on the road.

Do you get like a trailer or do you get, you know,

no, no, no, what he's saying is, no, what he's saying is he gets a \$2,500 travel budget.

And instead he comes the day of and leaves the day of saving and netting himself an extra \$2,500.

Well, you know, you can optimize.

If you're saying optimize, I did use, I had, you know, during COVID,

I racked up a million and a half, two million of these United points.

And I have just been grinding those United points down.

So shout out to United and the pandemic.

All right.

There's a lot of news.

You say you're right, Chamath.

It's even worse than that.

He's charging them for travel expenses when he's not even paying anything.

Maybe Jason's part of the grifter is using the cash app to commit fraud and murder.

I mean, that Hindenburg report is, I mean, it's a work of art,

but we got to start with the Fed hiking rates by 25 basis points.

And the general feeling in the country that maybe the Fed doesn't know what they're doing.

And maybe it's time for regime change.

The Fed increased rates by 25 basis points yesterday, Wednesday.

So the Fed has increased the federal funds rate from nearly zero in March of 2022.

To now the range of 4.75 to 5% fastest rate hike since the 70s.

Speculation, the Fed might pause rate hikes or even cut due to the recent banking failures didn't happen.

So if you bet that they were going to pause, you were wrong.

If you bet they were going to cut, you were also wrong.

But the market has ripped a bit a day after,

which people are trying to figure out in the group chats.

It doesn't seem like anybody has a theory here.

But let's start with sacks, maybe an explainer a little bit on how the Fed works.

There's a board there.

People serve a 14 year term.

I guess they replace somebody every two years and Jerome Powell was placed in 2018 by Trump.

And I guess there's a lot of hand wringing now that they were late on inflation, obviously.

And then they went too fast and maybe now they're not slowing down enough.

So what's your take on it objectively sacks?

Putting aside partisanship and this administration versus that administration,

just objectively, do they know what they're doing and how could they do a better job?

No, I don't think they know what they're doing.

They clearly reacted way too late to the inflation.

We've talked about this before.

We had that surprise inflation print in the summer of 2021, 5.1%.

They said it was transitory.

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They didn't react until November.

They continued QE for another six months.

And they suddenly got hawkish in November of 2021.

And they didn't even start the first rate increase until March of 2022.

So they were really asleep at the wheel and late to react to the inflation by about nine months.

Now I think they're potentially making the opposite decision, which is

they are late to recognize what stress and distress the economy is under right now.

And Powell had, there were three choices they could have made at this meeting.

They could have raised rates, which is what they did.

They could have cut rates, which they didn't, or they could have done nothing.

Basically held Pat. And the argument for raising rates is just that,

well, we have this inflation problem.

We need to keep raising interest rates until the rates are above inflation.

And that will bring inflation down, then you can start to lower rates.

That's sort of the conventional view.

I think the problem with that view is it ignores that we've just seen a run of bank failures.

And there's tremendous stress building up in the banking system

from unrealized losses on long-dated bonds.

Also unrealized losses on commercial real estate loans.

And we've barely scratched the surface of seeing that problem.

That's, I think, the next shoe to drop in this whole thing.

So I think that the right decision here was to either cut rates or to stand Pat.

You may have seen that Elon said, listen, we should be cutting rates here.

There's way too much latency in this inflation data.

The economy is seizing up and we don't need to be raising rates right now.

We actually need to be cutting them.

I think that probably, if it were me looking at the upside downside of these decisions,

I probably would have just stood Pat because, again, we've just seen this banking crisis.

Why wouldn't you just wait one month to see?

Maybe there is latency in the inflation data.

Maybe that banking crisis is not over.

Why wouldn't you just stand Pat for one month?

You can always raise rates in a month.

I think that this move here could in hindsight be seen as the straw that breaks the camel's back.

Shamath, would you have paused and waited to see another card and then watch the hand

developed or do you think they're doing the right thing by raising or should they have cut?

I think they did the worst thing possible, which is they took the middle path.

If you think about what the Fed has the ability to do, they obviously have the ability to raise and lower interest rates.

But what we don't talk about is they have a balance sheet that can absorb assets.

For the last 10 or 15 years, we've had a phenomenon called quantitative easing.

And for folks that don't understand what that means,

that is essentially the Federal Reserve buying assets out of the market

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and giving people money for it so that people can then go and buy other things with that money. Last June, they started what's called quantitative tightening, which is essentially reversing that policy and restricting the liquidity in the system. So if you look at those tools and you sort of play a game tree on what the Fed could have done, I think that you have two choices.

One is you massively let inflation run amok where you have no tools to fix or you have massive illiquidity in the financial system.

But you actually do have tools to fix that, which is through some combination of quantitative easing and tightening, depending on how much liquidity you want in the system.

So I think, actually, I disagree with SACs.

I think they should have done the opposite.

They should have raised 50 bits.

It would have created a little bit more chaos in the short term, but it would have set us up to understand what was fundamentally broken and still give the Federal Reserve the ability to use their balance sheet and use liquidity in the future to solve the problem.

They took the worst option, which is neither did they cut nor did they raise enough.

And so this problem that SACs represents actually is the fundamental problem now, which is you won't have enough clarity and signal to really know whether this 25 basis point enough.

Look, I've maintained now for nine months that rates are going to be higher than we like and longer than we want. And so I think it's high time that we acknowledge that we have a sticky inflation problem whose back we have to break. We've known since Volcker era what we need to do to do that, which is you need to get interest rates to be greater than terminal inflation, which means that a 5% Fed funds rate is insufficient. So we're going to need to see a print of five and

a half, 5.75%. And that's when you're going to have enough contraction and then the Fed can come back with liquidity. But if they don't take these steps, we're going to be in this very choppy neither here, neither there situation. And I think that is what causes the real damage because it's the corrosive effects of uncertainty and what that does to lending, to risk taking, and I think is really bad for the economy.

Friberg, where do you land? We have SAC saying they should have stood Pat, Rich Mott saying either go hard, take the medicine.

I don't know. I'm not like an economist on judging the balance that they're trying to weigh right now. I think everyone's got a different... You can hear a cacophony of opinions on this one. What I'm more interested in is we talk a lot about the banking crisis underway. And I know we're going to talk about this question on commercial real estate in a minute. But if you look at the yield on the 10-year treasury, I think coming out of this past two weeks, the yield on the 10-year treasury dropped from 4.1% down to, looks like it closed at 3.4% today, nearly a 0.7% decline in the past two and a half, three weeks. And that's also off of 3.8% since the start of the year.

And remember when we talked about the impact on asset values at banks, I think if you look holistically at the roughly \$7 trillion of assets held at banks, whatever the set of banks that we looked at, the average equity ratio is about 15%. So a 2% or sorry, a 3% adjustment over 10 years on the treasury impacts the value of a chunk of that portfolio down 25%, which starts

to put you into dangerous territory. And there's obviously a distribution of what that does to certain banks that are overweight 10-year bonds, whether they're loan obligations on mortgages or treasuries or corporate bonds or real estate bonds, a real estate debt. And so the more encouraging point that I think we should pay attention to is does the market tell us that these short-term rate actions are driving down the medium and longer-term rates in a way that will improve the balance sheets of all these institutions that own a lot of this debt, particularly the banks and funds and so on. And I'll do the math here real quick, but just in the last two weeks, the impact on the 10-year treasury has probably had a pretty sizable impact. We talk about unrealized losses. It's reduced those unrealized losses. It's improved them. So I think that that's like the more important metric to be tracking is if you look at all the assets that we're all worried about right now, are they going up in value or down in value in a way that introduces

more stability into these kind of banking systems that we care about. And I think right now it looks like maybe things are improving. And that might be part of the optimism around equity markets and folks buying and so on. Yeah. And so this is, I guess, where people have started to talk about the next shoe to drop. We obviously had this time-based liquidity issues with Silicon Valley Bank. Now the Wall Street Journal is talking about commercial real estate and how much debt there is since COVID. Obviously, people are doing more remote work. A lot of the skyscrapers, it's not just San Francisco, but in many locations remain empty or underutilized.

People are now having their leases come up every year. More and more of these leases will become vacant. And then we'll see if these buildings are worth what people paid for them. Smaller banks hold around 2.3 trillion in commercial and real estate debt, including rental apartment mortgages. Almost 80% of commercial mortgages are held by banks, according to this Wall Street Journal story. Saks, you are an owner of some commercial real estate and you play in the space. You have a lot of firsthand knowledge.

What is your, putting aside your personal holdings or exposure, what is your take on what you're seeing? What is the game on the field right now in terms of commercial real estate in San Francisco and beyond? Well, if you talk to the commercial real estate guys, they'll tell you that the situation is dire. There's two problems. First, there's a credit crunch going on. So, there's just no credit available. If you're a commercial real estate developer and you have a building and you want to refinance your construction loan or put long-term debt on a building, you just can't do it. I mean, the banks are not open for business. They literally don't want the business. And I think that comes back to the fact that banks right now are hunkered down in an offensive posture. They're seeing deposits flee from their banks unless, of course, you're one of the top four. Does that freeze on the banks predate the Silicon Valley bank crisis? And it was exacerbated? Were people having a hard time getting loans before that? It predates it, but definitely what you saw with SVB and these other banks, including Credit Suisse, is that banks now are getting much more paranoid. And that's why you saw that if you look at the discount window, which is when the banks go to the Fed as lender of last resorts and basically post collateral to get liquidity, we had the biggest spike in discount window borrowing since the 2008 financial crisis. Yeah, that line on the right side, that is a spike in one-week sparring. This exceeds anything that happened in 2008. The warning signs should be flashing red over something like this. Now, to bring it back to

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commercial... And to be clear, that's banks who have real estate exposure going to the Fed, going to the government, saying, hey, can we get some money to cover these?

It's not specifically about real estate. It's more about bank liquidity. The banks are saying, we don't have enough liquidity right now to cover our needs, which are highly volatile right now, because basically, depositors are moving out of community and regional and small banks into the big four so-called systemically important or SIP banks.

What's happening is that, again, banks are hunkering down. They're getting very defensive. They do not want to make new loans because they can't tie up assets. They are trying to stay liquid themselves. That's what's happening now with respect to new lending.

And then on the other side of it, you have existing loan portfolios. There's something like \$20 trillion of commercial real estate debt, and most commercial real estate lending is done by small banks, by community banks. They are sitting on these huge CRE loan portfolios. And I think something like \$300 billion needs to be refinanced or is coming due in the next year. Normally, that's rolled over and refinanced. There was a study showing that unrealized losses in these loan portfolios in the banking system may be around \$2 trillion. It was a study that was reported on by the Wall Street Journal. So, in the same way that we had huge unrealized losses

in these long-dated bonds, I think we also have huge...

At Silicon Valley Bank specifically, that's where we saw...

They were the worst offender, but it's a systemic problem. I think similarly, we have huge unrealized losses in commercial real estate loan portfolios. And this is, I think, even a more subtle and pernicious problem, because with securities like T-bills or mortgage bonds, it's very easy to know what the unrealized losses are. The reason why they hadn't realized the losses was not because they didn't know what they were. It was because of a stupid accounting rule that said they didn't have to realize the losses if they were quote-unquote holding them to maturity. With these loan portfolios, we don't know how big the exposure

is. And we won't know until you start seeing some defaults and repricings of assets. And you actually...

Commercial real estate is a much more dynamic market. You have to have a buyer there. You have leases. You have leases coming off at different times. You have sub-leases occurring. And you have the owners of them flipping them and refinancing them constantly to buy new buildings.

Right. And those loans aren't as liquid, right? With a mortgage bond, those are basically a bunch of loans, home mortgages typically that have been packaged up and turned into a security and there's a liquid marketplace to trade them. In the case of these loan portfolios, there may not be a liquid marketplace. So, you don't really know how impaired that loan portfolio is until you actually get to a place where... When will we know? Because that's the thing I'm wondering. I saw a lot of headlines. Pinterest bought themselves out of their new headquarters in the Bay Area, San Francisco, I believe specifically. I heard Facebook got rid of a couple of billion dollars and wrote down some expansion. Amazon is selling buildings. They had gotten a ton of buildings and we saw last week, they got rid of another 9,000 or they're planning another 9,000 in a rift and they can't get people to come back to the office. So, how bad is the overbuild, I

guess, is the question because that will be the driver of the value of these buildings because if there's too much supply, then what are these buildings actually worth? Are they worth \$90 a square foot? What if Amazon doesn't want more space? You can see it in the credit default spreads of these banks. It's in the water table already. So, Nick, you can just throw it up. If you look at any bank that's lending and that has a portfolio, this is Deutsche Bank's Euro-denominated CDS, but it's the same for Barclays, it's the same for Sockgen, it's the same for a bunch of American banks. There is a risk in the system that Saks articulated that is now getting priced in. There are all kinds of loans whose payments, which the banks need, cannot necessarily be insured, which means that then there could be illiquidity there, there could be a flow of deposits out from those banks, which would then make their ability to pay their debt holders lower. You also have this complicated issue already where it's really like the first time in a long, long, long time where debt holders actually got wiped out in the credit suisse debacle before the equity holders did. And that's created all kinds of ripple effects. So, this credit bubble is here and it's being manifested right now in these very sophisticated parts of the market. And eventually, they'll ripple to the broader economy at large. But how a person feels this is they're not going to be able to get a car loan or a mortgage or the interest rates they pay will go up. And then how bondholders will react to all of this stuff is they'll just start to find different assets, probably the front end of the curve, money market, cash, gold, and they'll just abandon all these assets. And then the other problem is that it's just really, really bad for risk assets. So, the things that we invest in, startups, technology can be seen. Either in a world of inflation run amok because the Fed isn't hiking fast enough, which just destroys future cash flows, or in a world where the Fed pivots in a moment like this, and Nick, you can show the second chart, both result in the same outcome, which is that you just see these massive drawdowns in the value of risk assets. So, we're in a really complicated moment. And this is why I think, again, the Fed needed to take leadership this past week and actually do the hard work of either cutting 50 bps or raising 50 bps. And this middle path is the absolute worth path because trying to thread a needle in this complicated economy, I think, is just going to be impossible. And then what happens is then the markets move around them, right? The markets have completely said, we now discredit what you did. And they're basically banking that the Fed will be forced to cut rates massively in short course, because the crisis will be so severe that it'll outweigh the risk of inflation. Think about that. Yeah. So, all this real estate comes on the market. There's no buyers for it. The mortgages are due. Does that mean a commercial real estate owner just basically gets foreclosed on and they hand the keys back to the bank or the banks, as this Wall Street Journal story was alluding to, that the Fed will say, you know what, we'll just extend, we'll backstop this real estate, which happened in the last bubble. And we hope that over time, it works itself out and demand returns. Now, of course, that's different than a post-COVID world. So, this time could be different. What happens in the case of 2024, 2025, all of these office spaces are returned and the keys are handed back? Yeah. So, Jason, you asked a question like, how does this problem manifest? Let me describe from the point of view of that real estate owner. There's basically two problems. One is that you have a tenant who's in a long-term lease, five, seven, 10 years, that lease rolls. So, that

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lease comes due. Now, they don't need the space anymore. We know that takes San Francisco, which

has got to be the worst market for Syria and the country right now. That's something like 30% to 40% of the space is vacant. So, that's either space for a rent or space for a sub-lease, because no one's using it, so they put it back on the market. Well, all those sub-leases, they're still paying rent because they have a contract. So, what happens is, as those leases roll, now all of a sudden, you don't have to pay rent anymore, so you're going to stop. Or, if you still need the space, you're going to negotiate a much, much lower rent.

So, now all of a sudden, the real estate owner can't make their debt service covenant ratios.

The income from the building is just substantially less. They can't make their debt service.

Let's pause on that and explain that ratio to folks. You have a certain amount of debt you own,

let's say, Salesforce Tower. In Salesforce's case, they're sub-leasing 125,000 square feet.

Let's say they were into that for 500 million. What is this debt service ratio? Explain that to the audience. When the bank underwrites the loan, they just figure out the interest that you got to pay on the loan relative to the value of the building or the income that it's generating.

But all those ratios are upside down now because the value of the buildings, the rent, has gone down so much because there's so much vacancy. I mean, when these loans were underwritten,

San Francisco had like a 5% vacancy rate, and now it's like 30% to 40%. There's just no tenants.

And then in parallel with that, Jason, you've got all these cases where

you only have tenants or leases rolling, you have loans rolling. Again, if the owner of the building has either a construction loan or a long-term debt and that needs to roll,

they have to refinance it. And if they can even get credit, which they may not be able to because of this crunch, they're going to be paying a lot more for it. So now, all of a sudden,

the income statement for that building doesn't make sense. Think about it, your borrowing costs are higher and your revenue is lower. So now, all of a sudden, the building's under water.

So where does that end up? Well, they default on the debt and the bank ends up owning the building.

So then what happens is you end up with all of downtown San Francisco owned by a bunch of banks.

What are they going to do with it? They don't want to be in the real estate business.

So they have to fire sale those buildings in a bunch of auctions at rock bottom prices because, by the way, there's no cash or liquidity out there. So who are the buyers going to be?

Who's the buyer? Yeah, I was like, exactly right.

We're no buyers. We have a 30% vacancy rate. There's no renter.

So what happens, Detroit? Is it just like a dead city?

And then the tax base collapses in the city because so much of the tax base is dependent on real estate. So listen, I think they're going to have to work this out. I don't think they can just let the free market take its course here because you're going to end up with a scenario I just painted. So I think what hopefully would happen maybe is that the banks do some sort of deal with the real estate owners that they blend and extend or whatever. But in order to do that, they're going to need to be backstopped by somebody. And that's the Fed.

Freiberg, what are your thoughts? Just writ large as it were on the commercial real estate space because it was \$90 a square foot for Class A sacks in the city. Is that the price?

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I mean, what's that going to be? \$60, \$70, \$80, \$90 a foot depends on what kind of building you're talking about. I mean, you have all these empty office towers. So look, I never invest in office towers. I do small boutique kind of brick-and-timber spaces in Jackson Square. We're doing okay because people still want to be in those spaces. But these office towers on Market Street or in Soma, which is where all the investment went during the boom, nobody wants to be in those buildings anymore. And it doesn't help that the city has allowed this giant open-air drug market to metastasize right outside their door. Freiberg? Yeah, I think it's inevitable. We'll have probably \$2 to \$3 trillion of federal money spent to backstop and support the asset. I mean, that's the general theme here, in case everyone isn't paying attention at home, is that the Fed, the US government, will continue to print money and create programs to effectively support asset value such that there isn't a crippling economic ripple effect. And this is the dangerous debt spiral of debt. And that's why I always talk about how concerned I am about global debt levels and particularly debt levels in the US, but really global debt levels. I'll say the statistic again and over and over again, 360% global debt to global GDP. But even within some of these asset classes, a significant amount of debt has been used to fuel asset prices and to fuel equity value. And then that equity value gets levered and reinvested. And so the rippling effect in the economy of declining asset value can be magnified through leverage. And unfortunately, debt in general forces growth. Without growth, debt fails. And so when we've used debt to demand growth on a macro perspective, it causes significant stress and strain on the system when you're going through periods of like we are right now, which should be natural recessionary effects from COVID and shutting down the economy or natural asset price declines because of that. And we can't let it happen because if it were to happen, the rippling effect would be crippling. So this is a good example. You'll probably, I don't know what the facility will look like. Maybe the government passes some congressional bill that says, Hey guys, here's \$3 trillion to support all this real estate. Here's another \$2 trillion to support banks and giving them liquidity because the other problem, as you guys know, is most people's, most of the population in the US has most of their assets, their asset value or their equity value in their home. And those home prices are supported by residential loan programs. And if you actually have a massive write down of the value of that asset class, that's when everything kind of falls apart. So we will continue to be buoyed by that kind of inflationary behavior. Unfortunately, biology, I think has it right. We'll talk about his data in a minute that there has to be money printing to get out of this hole. I don't know if it's necessarily in this moment hyperinflationary as he predicts. He uses the Deutschmark and the Weimar Republic as this kind of storyline that this is what's about to happen in the US. The truth is, it looks a little bit more like the pound sterling at the end of the British Empire, where there's certainly an inflationary and devaluation effect that arises, but it's not, it is the reserve currency of the world today. And so it's really hard to kind of just say, hey, it's going to be hyperinflationary and the value is going to go to zero. It's just not going to happen. So that seems to be the dollar of the dollar. Yeah. So that seems to be the bet now, Chumafat. Some folks are predicting, catastrophizing, hey, this is the end of US supremacy, the end of the dollar. Of course, modern monetary theory seems to stay. You can just

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keep printing dollars and make a couple trillion dollar coins and backstop it. And by the way, TARP was profitable, modestly for the United States, and the backstop of real estate totally worked. So where do you land on this? Do you think these backstops and modern monetary theory, stating that you can just print money, you own your own fiat currency is going to work, or as we pivot to the billion dollar, I'm sorry, the million dollar biology Bitcoin bet, that this is the end of days? I think it's not the end of days, but I think you're conflating a bunch of things together. So look, MMT- Yes, I am. Yes.

was in hindsight, idiotic. In the moment, it never quite made sense. But in hindsight, it's clearly idiotic. And I think that we can properly dispense with that.

But the reason that we print so much money is sort of what Friedberg says, which is that we just want a well-functioning society. And the simplest and shortest way to do that is to make sure that there aren't any winners and losers anymore. And the most effective way to do that in the markets is with money. Print a bunch of money, and there are no more winners and losers. And so everybody can kind of win. Some people may win more, but nobody really ever loses.

So I think that's the MO that we're operating under.

The thing is I don't think that- There's something unhealthy to that,

Chamath. You're sort of alluding to- Yeah, but no losers.

That's a more philosophical and a commentary on capitalism and a bunch of other things.

And you're right, I don't think it makes sense. I do think you need winners and losers to really make society function well. But the other part of it is like, does it reinforce or does it decay U.S. dollar hegemony? And I think it actually reinforces it.

And the reason is just very practically speaking, when you look at how dependent other people, other countries are on the U.S. dollar in times of stress, they actually become more dependent. And that has a lot to do with their boring patterns, the amount of dollars central banks need outside the United States. And so what did you see in a moment of stress?

Actually, the Fed opened up swap lines to all the central banks that they work with, their most important operating partners, so Europe, Canada, Japan, etc., Switzerland, and they moved the liquidity window from weekly to daily and they pounded the swap lines.

So I don't know, I think that most people that kind of like, it's like a boy crying wolf, maybe at some point somebody will be right, but you're going to lose so much money trying to take a point of view around this topic that it's more practical to just look at dollar flows.

And dollar flows go up in moments of stress, not go down. And they go up in a distributed manner across the monetary plumbing of the world. All right, so let's explain the biology bet since that trended and he is the boy poop. As you're saying, well, cried wolf this past week.

Cried Bitcoin. Yeah, the boy cried Bitcoin, very upset.

So a friend of the pod, apology, on March 17 predicted that Bitcoin will reach \$1 million in 90 days due to U.S. hyperinflation. Hyperinflation is defined as prices going up 50% month over month, just so we're clear on exactly how dramatic that is. He made the bet on March 17th against a pseudo anonymous Twitter user, James Medlock, who said they would bet \$1 million that the U.S. would not experience hyperinflation. So, apology sort of inserted Bitcoin into that bet. It wasn't a Bitcoin bet then. And I think he's done two of these bets. So he's betting \$2 million in total on Bitcoin hitting \$1 million by June 17, which there's probably no chance of that happening. We're very tiny chance. I'll ask the panel in a second. Bitcoin was trading at 25,

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26,000 at the time. It's now trading at over 28,000. And Bellagio has been on every podcast known to man in the last 72 hours talking about this. I've watched one or two of them. And it's a pretty out there argument, I think. You can just type in biology on YouTube and watch any of the 20 he's done. He believes regional banks are insolvent. He thinks the Fed is going to need to print a massive amount of money, like we've said here, do more QE and then cut rates. It all seems reasonable. But that that will lead to hyperinflation.

It's not reasonable. Well, no, it's not that it's reasonable. We just printed that they're going to cut rates. We just discussed they're going to eventually cut rates and there'll be more QE. So that part is reasonable. Just that one little piece. But then he believes that the part that is kind of out there, that hyperinflation is going to devalue the dollar. And this is the time. He does not. And I asked him this a bunch of times and he would not be honest about it or didn't want to answer my question. I said, hey, what percentage are you in Bitcoin? Somebody says he's 99% in Bitcoin. He will not confirm. And so I was like, well, if you want a thousand Bitcoins, if this goes up, a very small amount, four or five percent, you're going to pay for the bets. And are you talking your own book here or not?

Sacks, what do you think of this overall bet? Is it a stunt? He's saying like, this is the lifeboats moment. And just to add to it, he says you have to leave the United States and get to Singapore or a place. Or if you're going to stay in the United States, you need to get to Wyoming or Texas or somewhere that explicitly allows Bitcoin. Because the closer you are to the United States banking system, what happened to Silicon Valley Bank on that fateful weekend where people couldn't get their cash and we're going to have to, you know, mispayroll. He says that's the dry run for the entire US banking system. Sacks.

So first of all, I don't think you can disparage biology because someone who cries wolf says this repeatedly and makes a dire prediction repeatedly and is wrong. And we can't say yet that biology is wrong. Do I think that we're going to have a million dollar Bitcoin in 90 days? I personally find that very unlikely, but you can't say yet. He stuck his neck out making a prediction that will be easily falsified if he's wrong. Second, the last time that biology made a dire prediction was COVID. And he was right about that one.

So you can't say that this is just like a doomer who throws out crazy predictions and is always wrong. He's actually pretty selective about his predictions. Yeah. There was a tweet from January 30th of 2020 in which he basically predicted a pandemic based on a coronavirus and laid out a whole bunch of consequences that mostly came true, which is why we're talking about this. This is not just some like random person, like he actually has a pedigree and a track record. Here's my view on it. In doom and gloom. Yeah.

Him and the sea to lab, the two of our opening speakers at all in summer 2023. Those would be our bookhead speakers. Book them now.

Anyway, so look, now, what do I think about it? I posted my own theory today, which I would call sort of biology light, which is, okay, look, if you think about the spiking interest rates that we've had, and that Chamathons Wash should continue quite a bit longer, there are three main effects that it indisputably has. Number one, undercuts the value of long dated bonds. Number two, it's made lending much more expensive, particularly for big purchases like real estate. Number three, it's increased government lending costs. Okay. Now, play that through the financial system. What does that mean? Well,

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if the value of long dated bonds has sharply decreased, well, that's led to this banking crisis with the unrealized losses. That's already happened. Number two, it's made lending more expensive, the credit crunch and CRE. We're beginning to see that, and I believe that's going to play out as the second crisis of this larger financial crisis. And then number three is the increase in government borrowing costs that will eventually play out in terms of being a government debt crisis of some kind. And I think it'll involve a spike in borrowing costs at the federal level and involve sovereign debt issues internationally. I think it'll involve budget deficits at states and cities. So I think there's three phases to this financial crisis. We're in phase one, and I think CRE and government debt are the next two phases. And I think a lot of that lines up with what biology thinks. Where I disagree with him is, I don't think we can know what's going to happen in 90 days. I think that the CRE crisis is highly deflationary. It's going to create distress everywhere in the economy. That is going to lead to a massive reduction in liquidity. I think that the government debt crisis, assuming the government wants to inflate and monetize the debt as a way to solve that problem, that will be highly inflationary. But when these things play out, we can't know. I think that's what makes this really hard is I think jumping all the way to the sort of finish line and saying, we're going to have a million-dollar Bitcoin in 90 days because the US dollar is worthless. I think that's premature. I think this could play out over the next couple of years. We have a real problem if Bitcoin is the exit ramp for an inflationary crisis because it's not accessible enough. It's not easily transactable. I'm sorry to be negative to the Bitcoin maximalists. I'm generally in favor of this kind of independent storage system that's outside of government and state control. I think there's just this unfortunate reality. We saw what the Wells noticed at Coinbase today. They just arrested that crypto guy. Doquan was arrested in Montenegro of all places. Great country. Kraken won't let you wire money in or out as if I think Monday or Tuesday. It's clearly becoming kind of a less accessible system of storage. What's more accessible? Well, I do think that one of the reasons we're seeing the market move the way it does is because folks are shifting their risk assets around quite a bit right now to figure out where is a good place to put money. I was talking with an asset manager this morning and they had a very strong point of view. Folks are moving capital away from what they think are going to be most impacted by the risk of this kind of massive inflationary event that may arise or this massive banking crisis that may arise or this massive real estate crisis that may arise. There are other places to then put your capital that's not just Bitcoin. Sure, maybe some of these things are dollar denominated, but for example, there are many businesses that sell products in non-dollar denominated currencies globally. While they report and trade on US stock exchanges, you're buying a security interest in a business that generates most of its income. You're referring to many different companies. There are many companies that get the bulk of their revenue, the bulk of their sales internationally. There are also many companies that will benefit in an inflationary environment, businesses that are tied to other types of real estate, businesses that are tied to certain capital equipment where consumption will not go down unless there's significant massive global socioeconomic shock. I think that that's a lot of what's going on right now. It's less about, hey, Bitcoin's the only place to go and be safe. It's more about, let me reallocate my risk assets

a little bit to places that may benefit from or may be better guarded from a massive inflationary shock. Let me just say one more thing. I think one of the biggest risks that is not being talked about is the debt ceiling vote that's due in June. In June, Congress needs to pass an increase in the debt ceiling because the amount of debt that the federal government is going to have to take on in order to meet our budget deficit and refinance our debt and pay our obligations historically means that we're going to have to have more than what we've approved

to date in terms of the total amount of debt. Now, this has historically been a last-minute vote, crazy dramatic thing that drives markets nuts. The Hill had a public opinion piece from Peter O'Rourke and Mary Spath, but I think they make a good point. I've talked to a lot of folks who are, call it in the fixed income market, but also folks who are in the equities markets publicly who are pretty nervous about the debt ceiling vote. If it does look like the Republican party takes a very hard line and says, because this is the current party line, if you don't agree to massive deficit cuts or spending cuts and really commit to that in a bill that we can pass, that then also approves the increase in the debt limit, we are not going to approve increasing the debt limit. What this opinion piece argues, I think is a very good middle of the line solution, which is come up with points of view and actually document those points of view on making sure that government spending is effectively accountable, that there's no more wasteful spending, and that there are certain programs that both parties can very quickly agree to as being very wasteful. If you start there, you maybe get enough across the line that both parties say, this makes sense, let's do this, and then we can increase the debt limit. In the absence of that, the US will have to default on debt. This is always the big threats never happened, and if that happens, or there is the looming threat of that happening, combined with the banking crisis, combined with the liquidity crisis, combined with the real estate crisis that may be emerging here. Let me ask you a question that's kind of fun for you.

You could have things really meltdown. I think this is the biggest, like Black Swan, it's not a Black Swan, but this is the biggest kind of elephant in the room right now, and I think if people in DC could get together today, and if you could, instead of doing the typical last-minute 24-hour vote a day before the debt ceiling needs to be increased, if this could be addressed today, it could start to put in some of the layers of backstop and coverage and protection and safety that the markets I think really need to manage some of the trepidation in the weeks and months ahead. I want to jump to the crypto crackdown and get your opinion on that first, but I want to do a clarifying point here with Freberg. You have been in the Ray Dalio end of empires, empires collapse, and that, hey, maybe the US is winding down its supremacy, and apology was pretty much saying, yep, this is the moment. Where is there any light between your position of like, hey, Dalio's correct, this is the end of the empire, and apology is like, it's the end of the empire right now. Where do you stand on that, Freberg? So, I mean, I've always, I've been concerned, I've told you guys this for like three years, and I've obviously promoted this book for two and a half years. When Dalio's points of view, with lots of kind of empirical wisdom behind it, I think indicate that the US is on a path and the way we spend and the way we behave and the way markets are reacting, I think indicates that a lot of what has happened historically is happening now in the US. Now, it doesn't, I don't know if it's going to happen overnight. That's where I would have light with apology.

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The notion of kind of hyperinflation, again, I think means that, so think about all the US dollar holders around the world. It would be a shock for the collective system, it would require the collective system to collectively agree to get off the dollar very quickly for that to really happen. In the meantime, I do think there will be inflationary effects. I do think there will be massive kind of asset value shocks, but I'm not sure there's going to be this kind of like Weimar Republic, Deutsche Mark hyperinflation thing because it is the reserve currency and it is so widely held by everyone. It would require collective giving up. It also seems like there may be, you know, we talked a lot about the Petro Yuan trade, which I think is critical to see that actually happen. I think that's going to be the lynchpin. Got it. Maybe that catalyzes this. And that seems to be a little bit tightrope right now too. It doesn't seem super definitive that Saudis are embracing China. There's obviously this behavior. It's not as definitive right now. I think that that needs to happen to kind of really catalyze that. Let's get our tinfoil hats on here for a second. In relation to the biology bet, there has been a lot of action against crypto. Obviously, authoritarian countries took control of crypto long ago, China banning it, et cetera, North Korea, other authoritarian places kind of tightened their grip on it. Now, here in the United States, Coinbase got a well's notice. That is a warning basically in giving you a last chance to kind of respond to the SEC. And this was based on their loaning programs. And on top of that, a number of other crypto crackdowns have occurred. We saw celebrities getting smacked down and getting fines and doing settlements. This has led sacks to a theory that the United States government wants to break the back of crypto. Crypto has done a great job of breaking their own back with plenty of crypto grips inside our trading and all kinds of shenanigans with FTX and front running and painting the tape. Any grift or criminal activity possible seems to have been exploited. Do you think that these two things are in some way coordinated or there's a coordinated effort by the U.S. government to destroy and kill crypto as an off-ramp for the U.S. dollar while the U.S. dollar is dealing with these crises? Well, there's a really interesting article that was just published on Substack by Nick Carter, who I guess is a guest writer on Mike Solana's Substack called Pirate Wires. This is a follow-up piece to an article he wrote six weeks ago where he laid out an operation by the Biden administration called Operation Choke Point, which made the case that the Biden administration was quietly attempting to ban crypto. And now, a month later, there's all these steps that the administration is taking to go after crypto. And he lays out a bunch in a bullet point list. So, the SEC announced a lawsuit against crypto infrastructure company Paxos, crypto exchange Kraken, settled with the SEC. SEC chair Gensler openly labeled every crypto asset other than Bitcoin to security. Senate Committee on Environment and Public Works held a hearing lambasting Bitcoin. Biden administration proposed a bill that singles out crypto miners for owner's tax treatment. New York Attorney General declared Ethereum, which is the second largest crypto asset of security. That's a huge change, by the way. Yep. SEC continued its anti-consumer protection efforts by doubling down their attempt to block a spot Bitcoin ETF. OCC let CryptoBank Protego's application for a national trust charter expire, and then the SEC just sent Coinbase a wealth notice. So, I think it's hard to argue that there isn't a concerted effort now to crack down on crypto by a wide variety of government agencies

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and authorities, starting with Gensler at the SEC, who seems incredibly hostile to crypto. So, now, the only question is, is this correlated with the stress that the banking system is under, or is it just a coincidence? And that I don't know, but I think the argument biology would make is that at the same time, they're going to deflate the dollar. They're going to make it harder for you to find an off-ramp. And he actually brought up a historical example that wasn't aware of. I think it was called Executive Order 6201, which is FDR, way back in the 1930s, actually had an executive order that confiscated all the private gold bullion in the country. And they seized the gold bullion, making the accusation that private citizens were hoarding too much gold. So, in any event, this is the theory. I don't know whether it's true or not. It could be a coincidence.

Chamath, do you think that this is correlated in any way with the crisis, or is just the fact that FTX blew up and all these other things blew up, and the public is really upset that they lost a lot of money on this and the SEC has got to cover and be a little bit more active instead of reactive when it comes to dealing with the crypto losses that consumers had? That's the latter. I mean, I think that there is a rumor going around. I don't know how true it is that FTX was days away from getting a critical approval by the SEC to actually even further legitimize their US exchange before they went out of business. So, I think Gensler had to pivot very hard from at a minimum being very pro FTX, and there's all kinds of stories about his interrelatedness with Sam and his family, to very anti-bit or anti-crypto in general. That's clearly happened. But look, I think that this is like a lot of tin-hatting, which I don't think is very productive. If you look at the total number of non-zero Bitcoin wallet addresses in the world, and let's be extremely generous and say it's 100 million, there are still 7 billion people in the world. And so, I just think everybody that tries to speak about the fragility of the US and worldwide banking system is right, and that part I think is quite lucid and unemotional. But every time they try to connect it to Bitcoin, they sound like a crazy person because they're just talking their book. And that is exactly the case, by the way, with this kid, Nick Carter. And the best example to demonstrate this is in all of this chaos, if Bitcoin or crypto assets in general were truly a legitimate off-ramp and salvation from US dollar hegemony and all of this stuff, why isn't Bitcoin at least at 35,000 a coin right now? It's barely above 28,000. It really hasn't moved that much. And I think the real answer here is that most people in Bitcoin are not trying to hedge their existing fiat currency exposure. They're just picking off people in retail, and they're just day trading this thing. I mean, how else do you explain an asset that is not absolutely ripped in the face of all of this terrible news about the financial system? And I think the answer is because it's still a cul-de-sac of users. It's not broadly available, not broadly adoptable, not broadly used. I still believe that it's valuable. I was the earliest proponent of Bitcoin 2011, 2012. So I believe that there's a place for it in one's portfolio, but I just think connecting these dots misses the point. And I think the point is much, much bigger than a crypto off-ramp. The point is that we have a lot of systemic shocks that are building up in the system. We have broken a ton of the systems that cause the financial infrastructure and the world to work properly, and we are just starting to uncover how they're broken. So I think we need to focus our energy on that and dial down a little bit of the Bitcoin maxi stuff because it distracts from a really important set of topics that are more inclusive and actually touch 7 billion people.

We have to do the cleanup work. And just to be perfectly clear here, Nick Carter is a career crypto. He's on his third fund, his \$250 million third fund, according to a quick Google search. He's a partner at Castle Island Ventures. And I believe Boloji believes what he's saying.

And at the same time, is massively in Bitcoin and the \$2 million he'll obviously lose in this bet or the 99.9% chance. And he said that already. I think he believes he's doing a service just like he did believe he was doing a service with COVID.

So I do not doubt his intent, but I believe it's his book is based on this and the \$2 million will be easily paid off. He's a very smart and good guy. My point is put this in the who cares bucket and get back to the facts. Friedberg mentioned it. We have a debt ceiling problem that's in the offing. Sax mentioned it. We have a commercial real estate crisis.

We just talked about the fact that he didn't raise rates enough, nor did he cut enough. So we're in this weird middle path that J Powell we're talking about. So those are the facts on the ground that I think we should focus on because those will have implications to how people can borrow, start businesses, capitalize risk assets. That's a big problem.

I guess the moral hazard comes up, Sax. And the critique I think that people have had of you, you know, focusing on bank bailouts, et cetera, has been, you have been anti bailout. And now, hey, maybe backstopping the deposits, not backstopping the bank. The shareholders lost you were very clear about that. But let's talk about moral hazard here for a minute. Are we started of getting not for bail? When did I say I was either for bailouts or not? I just clear stated you're not. I'm saying this is the critique that people have had of you. So I'm giving you a chance to address. Why are you giving him people's critiques of him? Because I want him to talk about the future moral hazard. More of a user seven, six, five, four, two on Twitter. Who cares about person things? Okay. I was also thinking about the one. Let me jump in. I was also thinking about the Wall Street Journal, the New York Times and everything. Let me jump in and just clarify. I was really clear that SVB shareholders should be wiped out. Their bondholders should be wiped out. Their management stock options should be wiped out.

In fact, if it turns out that they should have known the thing was about to go under, I think their stock sales should be clawed back. So I'm not in favor of bailing out SVB. I don't care about SVB. Yes, of course. Now let's do that for commercial real estate. No, the question is what you do with deposits and depositors. Correct. I think there is a real debate about how you treat depositors in a banking crisis. And I think there are two views on that. There is kind of an old-fashioned view and then there's kind of a more modern regulatory view. The old-fashioned

view is that if your money isn't a bank and that bank goes under and you're over the FDIC amount, you lose your money. And we need people in the system to lose their money because that creates discipline on the banks. It'll make those depositors do a better job shopping for the right bank. That's kind of what I would call the old-fashioned hardline view. There's a more modern regulatory view which is that, listen, the typical depositor, even a fairly sophisticated depositor like a small business or even a high net worth individual, they're not in a position to evaluate the balance sheet of these banks. How are they going to figure out if there's toxic assets that are hidden on the balance sheet of these banks? The regulators didn't see it. We're still going to buy a bank and a lot of these banks. You don't really get that much more moral hazard

by putting the depositor on the hook for that. Remember, the management of the bank already is penalized severely by losing all their stock. I'm trying to get to before Tramo interrupted me. I'm trying to get to the bigger moral hazard picture here, which is, Jason, fuck you before you interrupt me. Eat your nuts for a second. The point I'm trying to get to is, should commercial real estate, should that be bailed out? How should society look at that next card that you are saying is going to tip over? How would you handle that piece? Should they? Okay. Well, let me just finish the thought on depositors. The modern regulatory view is that when you open a bank account, you should have to think about the bank's balance sheet. You just want it to be safe. You don't want all the brain damage. Look, I think there's a lot of merit to that argument. As it turns out, I mean, I've been trying to look into this. How much would it cost the system to just fully insure depositors? It turns out that we have about 17 and a half trillion in deposits in the US, almost 18 trillion. And one of the misnomers you'll hear is, well, it would cost us 18 trillion to basically insure all the depositors. That's not true, because first of all, 10 trillion is already insured under FDIC. It's only about seven and a half to eight trillion that's less than half is left. Okay. Yes, right. Exactly. It's about, it's around eight trillion. So isn't it shocking the innumeracy of people that make these claims? I know. It's unbelievable. No, no, this is what we're, this is why the podcast is top 20 or top 10 in the world because we're actually breaking down the numbers. Right. So continue. By the way, the leading proponent of this theory that we should just basically not bail out, but backstop the deposits is Bill Ackman. And he's been making, I think a pretty compelling case that if you don't protect deposits at small banks, all the money is going to flow to the top four banks. That's right. That's happening. Yeah. We're watching it happen. Right. So I've been trying to figure out how much it would actually cost us to do that. And what I've realized is that it's not 18 trillion, it's eight trillion. But by the way, that's the amount of deposits. That's not the risk premium. So if you look at FDIC at the end of last year, there was about 130 billion that have been paid in to the FDIC fund by premiums paid by these banks. So in other words, the insurance premium paid by banks was about 1.3%. So if you were to now additionally cover the whole thing, all the deposits, it would be another roughly 100 billion of premiums paid by these banks. That seems very manageable to me actually. The question is, is the FDIC fund adequate? And I think we're about to find out. It may be the case that a 1.3% insurance premium grossly understated the true risk of putting your deposit in a bank and we're about to find out that the FDIC is inadequate. I don't know the answer to that question. Well, I think this boils down to the profitability that an equity shareholder of a bank expects of them. And to your point, is it viable for large GSIBs to guarantee 100% of their deposits? Absolutely. The implication of that will be an enormous hit to their short-term profitability and their return on invested capital. It would just take a massive hit. And so as a result, the stocks of those banks would fall pretty precipitously, which would have a real negative impact on the executives and the CEOs of those banks and the shareholders that own those bank equities. So I think ultimately, it'll come down to that decision, which is that if you do want to protect the depositor in the American banking system 100% for every dollar and do it in a simple way, it will come at the sake of the equity holders of the banks. And if you're willing to make that trade off, then you can guarantee 100% of the deposits. If you do not want to make that trade

off, then the equity holders will still retain more value than they would otherwise. And Freberg, we've seen a couple of examples of the market, the free market, looking at the situation and making new products and services. Wellfront, Mercury Bank, both talked about load balancing across 12 accounts, \$3 million. So that would make some people who had over \$250K just instantly be backstopped and insured. And then where there's discussion of, I talked about last week, hey, why don't you just have a vault where you pay a bank to hold your money safely? I got a ton of responses from all in-fans pointing out multiple banks and services that have been trying to do this and also crypto solutions. So is it going to be a free market solution, you think? Or when we're starting to see them emerge, that maybe covers this gap a little bit, Freberg? And then what are your thoughts just generally on should we backstop the banks and the deposit, I'm sorry, the banks, the depositors to be clear. So if we just quickly analyze the function of a bank, they loan money to either residential real estate buyers, like homeowners or commercial real estate buyers or businesses that need it. I think the majority of the capital goes to residential real estate. And if they can't loan enough money, they typically buy bonds, right? They buy other people's loans in the form of bond securities like treasuries or asset-backed securities or other things like that, or mortgage-backed securities. So they use the cash to make those investments, to make those loans. And then they obviously earn a return on that. I think we've talked about this in the past. The thing that that biology, I think, has misstated. And it would be good to have a conversation with him about this publicly, because I have listened to some of his interviews in the last couple of days. He says the banks are, they don't have the money that you, the depositor, thinks that you have. And so what he's saying kind of implies that there is no money, that there is no asset value there at all. He used the Sam Bankman Freed and FTX as an example, that the money that was given to Sam Bankman Freed's exchange fund was used to buy assets that then very quickly declined in value by 99%. But he held them on the book at 100%. And then he reinvested the money in all sorts of other different stuff. And in the case of the loans made by banks and the assets that they, as a result, hold, the value may have dropped by 25% in kind of the worst case, which is the Silicon Valley Bank tenure treasury bond scenario, where they bought, you know, all \$20 billion worth of treasury bonds. And, you know, they took a big hit on that. But it doesn't mean that there's no asset value. It means that the value has declined. And typically there's a buffer between the asset value that the banks are meant to hold and the deposits that they owe back to their customers. And if that buffer gets exceeded, then the bank is technically has negative equity. And if all the, you know, depositors said, I want my money back, and they went and sold those bonds into the market, they wouldn't be able to make the depositors whole. But it doesn't mean the depositors end up with zero. It means instead of getting 100 cents on the dollar, they get 93 cents on the dollar, 88 cents on the dollar. And it would require an orderly dissolution of the bank's assets selling those bonds into the market to generate the cash to pay back the depositors. So the reason we've seen this kind of this fed vertical spike number is because assets are moving so quickly, depositors are moving their value so quickly from one bank to another, that in order for the banks to make the cash available to those depositors, they've had to borrow from the Fed. And then they're going into the market and doing this kind of, they should be doing this orderly asset sale of the

bonds to generate the cash to pay back the Fed, which is where they... So it's just musical chairs. Money's moving around, causing these problems as musical chairs. And if the musical chairs stop, then we don't have this problem, correct? So if people stopped moving deposits around, then you're right, the banks wouldn't need to borrow money to give depositors their money and then go do the work of selling the bonds in the market. And why are people free from moving their money around? Because of the... Because it's uninsured. Because it's uninsured. So here we go. So you just insure it and this whole thing stops. So it costs them nothing to just say that, right? Yeah. So here's the thing, Jake, how you mentioned this case that you hear a lot of people saying, well, why don't you just take your two and a half million dollars and break it up into ten accounts of... Which is what people are doing. Yeah. Yeah. Well, look, it's not feasible when you need to run a big payroll at the end of the month and you got payables. It's administratively too complicated. And by the way, what have you accomplished doing that? Have you ever solved anything? So... Who hasn't accomplished? For the startup, it hasn't accomplished. I mean, it's given them prediction. The system, yeah. Why don't you just raise FDIC to two and a half million or have FDIC be based on the number of employees in your company or allow a higher class, a business class of FDIC that goes up to say five million. FDIC Pro. Yes. Exactly. It goes up to ten million. And in exchange, the quid pro quo has to be that the bank can't put that money in risky assets. Why is this not... This is so obvious. FDIC Pro. Also, sorry. Just hold on a second. The reason I walked through that whole explanation is because I want to answer your question. I'm sorry it took so long, but like I want to highlight that because that is what an insurance underwriter put aside the FDIC and put aside banks and put aside the government's role. Yes. That's what an insurance underwriter's job would be. They would look at the volatility and the pricing on the bonds that the bank holds, and they would determine ultimately two things, probability of loss and severity of loss. And the probability is how likely is it that you end up in negative equity and that you have people requesting money and you have to sell those bonds at a loss very quickly. And then the severity is how much would you actually lose. So if the Fed raises rates by 3% and your entire book is tied up in 10 your bonds, you see a 25% decline in the value of your bond portfolio. That's as bad as it gets. If you start with a 10% buffer, now you only have 85% of the money you owe the depositors. So your loss is 15 cents on the dollar. So the insurance company would say, what's the probability of that event happening? How much should we underwrite it for? What should we charge as a premium to do that? And that's ultimately how the rates would get set. Now, the problem with most insurance models around this sort of a problem set is that these are the extreme tail events that have never happened. And so the insurance to sax's point is super cheap, leading up to the extreme tail event. And then everyone's like, oh my gosh, we underpaid for so many years. We didn't realize how severe the losses could have been. We didn't realize how significant this was going to be. And as a result, you now see this kind of multiplying effect because people are like, oh my gosh, if it happened to them, it could happen to me, let's all sell and it gets worse and worse and worse. And so, you know, the real rate for the insurance going forward will now have to take into account this massive risk. But the game theory problem is, as sax's point out, if you just insure everyone, the cost of the insurance actually goes way, way, way,

way down. Because now you don't have this money movement problem. And so, you know, the point is the more you insure at this point, the cheaper the insurance will actually be if you're an actuarial or free market underwriter, you know, free market kind of, you know, underwriting process on this thing. Because now the probability of having this bank run goes way, way down. And therefore, the cost of the insurance should go way down. And so, the irony is, if you actually did, and this is getting super technical, but if you actually looked at the statistical model and said, how much is this going to cost to insure every deposit, it gets much, much cheaper the higher the deposits that you're willing to insure would be. That's my sense of what the free market would do here. And it's certainly what I think the federal government should probably think about doing if they're going to continue to play a role in backstopping banks.

The net net is people, startups right now are doing five to 10 banks. I'm watching it happen. They're doing all these sweep accounts. They're doing multiple accounts. So, the government, if it doesn't raise the FDIC limit, is basically just creating extra work for everybody. And it's going to be the same outcome. So, the people are going to, the street will find its own use for technology and how to hack this. And that's what's happening with these services in real time. Just to steal man the old-fashioned view or the traditional view of this, they would say that, well, you want those startups being paranoid. You want those startups doing the work of disciplining these banks by moving their money elsewhere if they detect a problem. However, the problem with that is you get these bank runs. That is what a bank run is in parts. It's people moving their money because they're fearing that the bank is not doing a good job with their loan portfolio. So, this is why in the, let's call it the olden days before FDIC, we had bank runs and panics all the time. And that's why FDIC was invented. So, there's a hugely destructive problem that comes along with placing the depositor in charge of disciplining the banks. And I would argue that the depositor is not the best person to do it. It's the regulator. Just to kind of layer on what Freiburg was saying, I think there's like a fundamental market failure with banking in the sense that the depositor or the consumer and the bank think they're getting two completely different things. When you open a bank account or a checking account, you think you're getting a checkbook, an ATM card, a place to do payroll and payables. It's a service. It's a service. And maybe you make a little bit of interest, but it's not even your main motivation. Okay, that's what you think you're getting. Your money, most of all, is safe because you're not signing up with a service provider to have any chance of losing your money. You're not gambling. Right. But now, what does the bank think it's getting? You know what the bank thinks it's getting? An unsecured loan that they can then turn around and invest in whatever they want or whatever the law allows them to. So, there's a disconnect between the parties and the transaction. Exactly. It's a total disconnect. And moreover, the way the management of the bank is compensated is that they only have to pay back your loan, your deposit basically is their loan at par. And anything they make on a bet that they make with that money, they get to keep. They get to keep all the upside. Their stockholders and management get to keep that. And those incentives are driving this. And that's what drove the risk and all likelihood at Silicon Valley Bank. They were getting \$200 billion, whatever percentage point they got, Chamath, somehow the executive team is compensated for it. Their incentive, it's not just them, but the whole banking system creates the incentive. They're highly leveraged. The deposits from their standpoint are leveraged. They're leveraged 10 to one. So, their incentive is to go to the casino and gamble it because they get to keep all the upside.

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And if they lose it, it's basically someone else on the hook.

Final word, Chamath. In early May, the Fed will release their investigation into Signature Bank and SVB. Powell said that this week. I think it'll be really interesting to see how much honesty they both put into the report and then whether the entirety of that report is made available to the rest of us to read. But I think Saks has very elegantly summarized what's happening. And it doesn't take a genius to figure out that this doesn't make sense. And so the question is, what is the tolerance that we have for changing something that clearly is mischaracterized? What consumers think they're getting and what banks are then doing are two totally different things. And if the Fed actually is really, really honest and really lays bare everything that happened, it'll be very hard to not legislate changes based on it. And your best swing at legislative change would be what, Chamath? What is the low-hanging fruit? What's the layup here? Well, I think we've seen this happening in other markets for a while, which is that banks have become, in fairness to them, much, much better at risk management post Dodd-Frank, post Great Financial Crisis. And the result of that is that there's been a lot of emerging private credit markets because most of the bank is about lending, right? They're not really buying equities. They're lending money. They're a debtor in possession of something, right? And there's been just a massive explosion of private credit. And it started in the most obvious areas. It started in things like CLOs. It started in asset-backed securities, solar, car loans, credit cards, mortgages, private equity-backed deals. So I think the rational answer is that banks need to protect 100% of deposits and that if they want to have extracurricular activities, if you will, they need to be able to raise money from investors, put that to work in a really fair and transparent way, and then share in the profits between all of the related parties that are involved in that transaction, no different than any other risk-taking organization. And I think that this is now what we've probably shined a light on is a really odd loophole that just needs to get closed in 2023.

There's such easy, hygienic changes here. Let's put it a different way. If you raised money for a liquid hedge fund that had quarterly redemptions and then violated the LPA and stuffed it into private companies that had 10-year illiquidity, they would be held to pay. And vice versa, if you raised money on 10-year illiquid locked-up capital on the presumption you were going to invest in startups and then instead put it in the stock market thinking that you could flip it and make some money, you would have violated the LPA and they'd be held to pay. Similarly, I think what Saks is stating is that there is a mismatch of what the depositor, in this case the investor, expects and what the risk manager is doing. And I think that you have to correct that one way or the other. Make it abundantly clear that we're never going to ensure 100% and deal with that risk or make it 100% and deal with the fallout, which is largely about wiping out a lot of equity value in banks.

LPA equals limited partnership agreement.

Right. Just to clarify one thing, I'm not saying that these bank managers are all going to the casino and gambling the money. I think that they are generally more responsible than that. What I'm saying is that the incentives created by this crazy system we call banking create a weird incentive for them to gamble because they're so highly levered. From their standpoint, your deposits are their leverage.

Everybody but the G-SIBS because I think the G-SIBS, there's so much scrutiny.

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If you look at how well run Citi, B of A, Wells and JPM are relative and contrast them to the sub G-SIBS, it's like night and day. And so the other thing that I think we've realized is who thought it was a good idea to raise the bar on eligibility from 50 billion of assets to 200? Clearly now that made no sense. It makes more sense to actually categorize every bank as systemically important, maybe not globally, but at a minimum to the U.S. economy because these people play a vital function in society and they were allowed to take a much more aggressive risk posture because they were able to lobby the government to change the rules.

The CEO of TikTok, which claims to be an American company now or an international company, was in front of Congress today. His name is Shou Chu. This is the first time he's really, I think, spoken publicly in an extended period, four and a half hours he was grilled. And it was absolutely brutal. This is the first time I've seen a congressional hearing that was bipartisan in a long time. And he said that, quote, the bottom line is, this is an American data on American soil by an American company overseen by American personnel, and then was immediately squirrely when asked if Chinese employees, including engineers, have access to this U.S. data. And he said this is a complex subject over and over again. He was evasive and this did not look good for TikTok. The question now becomes, does it become divested and go public or does it get shut down?

Sax?

I think his goose was cooked as soon as they asked him the question.

In preparation for this hearing, did you consult with any member of the CCP?

And he could not just outright say no.

Nope.

So that's, his goose was cooked as soon as he couldn't just say no.

What do you think about the bipartisan nature of this and what do you think the outcome is, Sax? This is one of the rare things where it is bipartisan. I mean, there's so much outrage and anger at this. I think that they should let the company divest it. I think it is divestiture or shutdown for TikTok. Since we're not communists here, I think they should be given the chance to fully divest to an American-owned company. But look, I just wish that there was as much bipartisan consensus and outrage directed not just at Chinese spying of Americans, but on the American deep state spying on Americans. Because we just had hearings showing that the American government

conducts elaborate spying operations surveillance of Americans on social media. This was all revealed

in the Twitter files. And we got certainly no bipartisan consensus on that. Republicans were outraged, but Democrats tried to portray it as some sort of spat between Trump and Chrissy Teigen. I mean, that's all they wanted to talk about. So I would like to see this problem comprehensively addressed. And that means, I think, TikTok going into the hands of an American company, but I also would like more assurances that American companies will not be working with the deep state to spy on us and infringer on social liberties.

Chrissy Teigen and Donald Trump. Who are two people you'd never invite to a dinner party?

Freeberg, what are your thoughts? Is it going to divest? Should it be forced to divest?

Being intellectually honest about it? What are your thoughts on TikTok in America?

Yeah, I think I've shared this in the past. I think they're probably going to have to spin this thing out. And if the Chinese parent company holds any equity interest, it'll probably be non-voting shares. And there'll be a mandate that the majority of the shares and some degree of oversight. You believe that's the right thing to do?

From a national security issue for America to force them to do that?

I don't know from a national security point of view. I really don't. I don't have an opinion.

From national security and TikTok. I don't know. I've always thought that TikTok was a really...

What's the right word? It's like a firefly for Chinese invasion. And it feels like it's a very easy target for what is generally a big social consciousness right now.

So whether or not there's actually some national security points, if there were,

I'm pretty sure that a national security person would have stood up and said,

we need to stop this thing. I'm not sure I've heard that publicly.

I will say my point of view from just seeing the political behavior is that

they're probably going to mandate that these guys spin this thing out to U.S. investors and that the Chinese don't have any equity or management oversight or interest in it.

Chamath in China itself, the Chinese government does not allow kids to play video games during the week and only three hours on the weekend. They're using apps like WeChat to dictate social score and social behavior, whether it's smoking on a train or not paying your bills. And they are saying they will not divest. But anybody who is an investor in a company that had a chance to go public for tens of billions of dollars and eventually take on and people believe that this is a viable competitor to Facebook and Instagram, this could be a company worth ultimately hundreds

of billions of dollars. If you were an investor in China, you would want to IPO. You would want to get liquidity. So if they are refusing to sell, what does that tell you as a market participant and somebody who's been a capital allocator for over a decade?

There's bigger problems in China than even TikTok. U.S. represents for them. I think it's probably what it means. So it's a pretty bad tell. I don't think divestiture is a real option because when you think about the details of that, how will the government be satisfied that the code base was separated elegantly, that there was no malware surreptitiously planted?

How will you actually prove all of this to a degree that satisfies a legislator? So I think the pound of flesh that they want is more easily and more salaciously satisfied by shutting the thing down.

So if I had to bet on what happens, I bet more on that. I didn't think TikTok did a very good job.

And I think that there are some... They were terrible today.

And I think that there are some real issues around how much control does actually flow back.

I don't think that it was definitive. He needed to be much

clearer and adamant that this was an independent business that didn't have backdoors to China and the CCP to appease Congress. He didn't do that.

No. He was like, I have to check in on that. I'm not sure.

Yeah. I think it was a little bit of the exact opposite, actually. Sax is right.

Like that first question was just the death blow right from the beginning. It's like, uh-oh, this is not going to go in a good place because they should have been able to see that that question was going to get asked. And you need to have that asked and answered philosophy where the

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only answer is no. The only answer you could have given is no. And the fact that he wasn't able to say that, it was a bit of a feta complet. As soon as that was in my mind, I was like, this thing is getting shut down because I don't think there's a shut down. Yeah. There's no divestiture plan that can be technically audited in a short amount of time to appease these folks. They want a pound of flesh. And then separately, the bigger issue that I think you have to deal with is what does that mean for how other governments may be pressured to act who want to be on the pro-US camp? And I think that that's a question because bike dance and TikTok have presence beyond just China and the US. A third question is, how does the golden vote get used on the bike dance board? And what do they do? And do they even want this thing public? Explain golden vote. Essentially, they'll decide what happens to that company. And they have that in Alibaba. They have that, I think, a 10 cent. I think they have that at bike dance. So the Chinese government has a very strong hand in the direction of these businesses. And then the final point is that there's a secondary app that TikTok has called CapCut, which also is enormously popular in the United States, which is yet another potential backdoor for privacy or spying violations, whatever the US Congress wants to pin on them. So I think it's a very complicated moment for that business and their US asset. Sax, it's pretty clear the CCP is making this decision. If they decide, let it burn, let it get kicked out of the United States. What does that do in terms of game theory between the two countries and going forward? Because obviously they don't reciprocate. We're not allowed to have Google, Twitter, Instagram, whatever in China. So is this just putting reciprocity? What decision are you saying the CCP is making? Well, the CCP has the golden vote. It's their decision to divest or not divest. Chamopoly, they will not divest. I believe they will not divest. No, what you're saying is they're not going to have the choice. I don't see what decision the CCP has in this. It's going to be opposite. If they don't divest, that's right, it's not a divest or don't divest. I think it'll be shut down. I think they're getting kicked out of the United States. Okay, but you believe they're going to divest, Sax? I'm saying that that's what I would support, just to give them the chance. Okay, so what do you think is going to happen? I'm not sure, but I think they should be given the chance. And if you truly can't move the servers to the United States and vet the code base, I feel like you could, I think you could have an acquirer figure it out, you know, vet the code base, move the data centers, make sure there's no backdoors. I think it's not impossible, hard, but not impossible. Okay, so let's go with the scenario that it gets kicked out of the United States is shut down. Are there any second or third order impacts? Yeah, as it rashes up the tension between the US and China, but we're already, we're already there. Yeah, we're already there. No change. All right, listen, this has been an amazing episode. Oh, Chamath, did your 3D rocket company make it to space? I saw they had a nice little lift off there. Thank you, Jason. I just wanted to give a shout out. This is like, while all this chaos is happening in the world, it's amazing to see

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the pretty incredible engineering. So last night, we did have a successful launch.

So relativity has a 85% 3D printed rocket, which over time we want to try to get to 95%, but it's the fuselage, it's the engines.

It brings the cost of spaceflight down by an order of magnitude.

It is a hugely disruptive idea. And so what they tried to prove was that they could get this thing into space. And they accomplished a lot of goals. They got past MaxQ, which is sort of the point at which the atmospheric pressure is the strongest on the fuselage. So we proved structural integrity. We got to main engine cutoff. We had stage two separation. So a lot of really important technical milestones were achieved. It allows them now to unlock a bunch of contracts that allow us, frankly, just to keep going and building.

There's still a lot of work to do from here. We're building now the next generation rocket, which is called Terran R and rocket engines, which can take instead of 1,500 kilograms, about 20,000 kilos. So enormously proud to have been around this journey. My partner,

Jay, has been really the key person on it. But I just wanted to give a huge

shout out to Tim Ellis and the team at Relativity. It's super, super, super cool

what they pulled off on. It's just amazing how access to space is being democratized and the prices are being lowered so dramatically. What's the impact that's going to have, ultimately,

Friedberg, you think on humanity? I mean, obviously going to Mars is this incredible feat technologically and just mind blowing. But what do you think the net result of all this space activity is going to be for the human condition and the species?

I mean, I think there's a vibrant community of startups and money coming into this space right now. I do think all these guys are going to have to, in order to gain wider spread capital markets attention, like Elon has had to do with SpaceX, they're going to have to find business models that have kind of near term viability that don't depend on government contracts.

Like Starlink.

Like Starlink, yeah. And so I think that's the key question. It obviously, these are very capital intensive businesses. They have very long horizons to hit their milestones. So there's certainly capital available in the early stages to make bets on whether or not they can get these milestones. But the broader kind of attention in capital markets is going to come from these things building real kind of businesses that generate value for consumers and markets. One of the things that I think can unlock opportunity for this market overall is low cost energy. If we can get below, call it 1 cent to 3 cents kilowatt hour of power, call it 1 cent a kilowatt hour power.

I forgot the exact relationship. You can get very cheap hydrogen and oxygen fuel sources.

And so it's funny if you actually play out the scale factor for the space industry, much of it at scale will get driven by the cost of electricity. So it's another reason why there's going to be, I think, a pretty tight coupling between the cost of power and ultimately the vibrancy of this market.

You mentioned something important. The other key thing that we proved was that this is a pure methyloxygen, so CH₄ and liquid oxygen. And it was not just stage one, but also stage two, which is unique. The only other folks that have tried to prove that you could have multi-stage methyloxys, China and their most recent launch failed, but it highly simplifies the engineering problem at hand, especially the ground operations and whatnot, and sort of like

filling these rockets and making them viable. So that was another really big milestone. So the producing of that fuel, Friedberg, requires energy. If that energy was cheap, it would be cheaper to make and process that fuel.

That's right. Yeah, there's a pretty direct tie-in, particularly with scale manufacturing, on fuel that would be used in these rocket systems and power prices here on earth. So if and as we get power prices down, either through scaled renewables or ideally fusion or some other kind of new technology or nuclear fission or something, then the cost of fuel and the cost of these space programs goes down. And that ultimately, I think the real question everyone asks is, how do you get away from it just being government services businesses, which have a low multiple in markets and obviously, high dependency on one or two key customers? And how do you actually get private market products moving? So tourism obviously makes a lot of sense. Travel around the earth in 20 minutes or something. Some people have talked about mining or colonies and who would fund that real estate. It's unclear right now what the ultimate traveling is a wild one. I've talked to Elon about that, but the idea that you could have a rocket ship take off from Texas and then be in Tokyo, like half an hour, minutes later is wild. I can only speak for myself, but I would really like to visit Uranus Reaper. All right, everybody. Look at the player here. He's got layers are for players, Saxie, please. Look at this. He is two layers in. Can you get an Ascot? It's subtle, isn't it? He's pulling a Steve Bannon. You've got to get more disheveled. He needs the six pens in the color pens. No shave. Can you tell us honestly? Do you have a stylist, an actual person you pay to address you? Nick, can you please put the picture of Steve Bannon where he wears the multiple polo shirts? I'm not going to do this again. I'm not going to do this again. You need to stop for next week's show. Bannon's been attacking me. It's really weird. Oh yeah, Bannon. He thinks you're a venture venture capitalist or something. Who's been attacking you? Bannon was one of the many people attacking me. On Twitter? I think on his podcast, I think, yeah.

You seem to have made a lot of new friends on Twitter lately.

When you pass around half a million followers, basically what happens is you become a politician. You will, there will always be a fringe element of people who need to manage their anxiety by venting. And that's what you're feeling. You'll live that now at million followers, 2 million, 10 million, whatever. There's always going to be a small percentage.

J. Cal doesn't know this because he has mostly bots that are his followers.

That's true. When you have real people, this is what it is. You'll get this 1% or less than 1% and just the number goes up. So I would ignore it. Don't care. Don't worry about what user 747. Don't feed the Brigadoons. Don't care what user 74786 has to say.

Don't worry about it. Yeah, absolutely. I love you.

All right. And I'm looking forward to seeing you on Thursday.

For the Rain Man himself, David Sacks, the Sultan of Science and Prince of Panic attacks, R. Powell, David Friedberg, and the host with the most going to make me.

What about me? What about me?

I'm calling them calling you the host with the most. I'm adding something. The host with the most who's making me the Shiso leaf tempura with Hokkaido. And you are the world's best genuplector. I am the world's greatest guest, greatest house guest. If you need a house guest to look at your house, Italy, Tokyo, Niseko, wherever you need a house guest, I'm ready to come and make it a

good time. You're the modern Kato Kalin. You're horrible. Absolutely the best. You keep inviting me every week. You are enjoyable, though. Love you, boys. Let's have fun. Bye, everyone. Bye. You should all just get a room and just have one big huge orgy because they're all just useless. It's like this sexual tension that we just need to release somehow.