

## [Transcript] The Prof G Pod with Scott Galloway / Prof G Markets: Ozempic's Market Impacts and Surging Bond Yields – with Downtown Josh Brown

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So if I told you to think about the people who created social media, you'd probably think about a certain type of guy.

But what if that's not the whole story?

We mythologize these Silicon Valley men, but actually as my reporting shows, they constantly don't know what they're talking about and they don't know what they're doing.

And all these breakthrough features on social media, by the way, were actually created by users.

The untold history of social media. This week on Intuit from Vulture and New York Magazine.

This week's number, 93%. That's the percentage of malls with the Cheesecake Factory that are current on their loans.

That's compared to 72% of malls without the restaurant.

True story, my wife got kicked out of a Cheesecake Factory for breastfeeding.

Hey, when I'm thirsty, I'm thirsty.

Welcome to PropG Markets.

Today, we're discussing Ozempic's second order effects and surging bond yields.

Here with the news is PropG media analyst Ed Ellison.

I like how you call yourself a media analyst.

You really think that's more impressive?

How's that working for you in the bars?

I'm a media analyst.

How's that working, Ed?

Give me a new title. What should I call myself?

Oh, hands down. General Consulate of Australia.

That's the gangster title.

What do you call yourself to people? Entrepreneur?

Prof, professor.

Does that work?

What do I call myself? Angry, upset, erectile, dysfunctional.

I don't know. What do you call yourself?

Angry and depressed. Hit the headlines, news.

Hit the lines of head.

Let's start with our weekly review of Market Vitals.

The S&P 500 fell.

The dollar hit its strongest level in almost a year.

Bitcoin rose and Treasury yields surged.

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More on that later.

Shifting to the headlines.

WeWork announced it will miss \$95 million in interest payments on its debt.

That move may add pressure on the company's lenders as weWork attempts to negotiate more favorable terms.

Wonder Group, a food delivery startup, is acquiring Blue Apron for \$103 million.

That's down significantly from its nearly \$2 billion valuation at the time of its IPO six years ago.

ByteDance is buying back shares from US employees in a deal that values the company at roughly \$224 billion.

That's 26% lower than what the company was worth earlier this year.

Anthropic is raising up to \$2 billion in new funding, distinct from Amazon's investment, which we discussed last week.

The AI startup is seeking a valuation between \$20 and \$30 billion.

That's five times its valuation from seven months ago.

And finally, redacted portions of the FTC's lawsuit against Amazon claim the company used an algorithm named Project Nessie to raise its own prices.

It then tracked the company's competitors to test if they would follow Amazon's lead.

The algorithm is no longer in use.

But according to the FTC, it successfully raised prices across e-commerce and improved Amazon's profits.

Here we go.

What are your thoughts, Scott?

So this pricing thing, essentially, Amazon is with algorithms and crawlers and the massive amount of capital and technical prowess they have, they can go out and basically they set the price for the internet, for e-commerce, essentially.

I actually think it's an important piece of evidence.

And also, I think we need to frame it through the lens of,

I would do the same thing if I were them.

It's just that our laws say once you're at a point where for whatever reason, skills access to data capital,

continuing to do what makes the most sense for your own shareholders, ends up creating an unhealthy ecosystem.

Anthropic, I got to be honest, I love this because, do you know who has a huge stake in Anthropic?

FTX.

And guess who's been buying claims against a bankrupt FTX?

Yours truly.

Well, I've been buying these claims.

They invested about \$500 million in Anthropic, I think, two or three years ago.

So it's got to be worth at least \$2 billion and it might be worth as much as \$4 or \$5 billion.

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The court administrator or the bankruptcy administrator might be able to capture \$0.40 to \$0.50 on the dollar just from their investment Anthropic unless I'm missing something we'll see.

I've had great insights like this before that ended up not being so great, Ed.

Sorry, I just want to add one thing on Anthropic, get your take on this.

That same report revealed that it's generated \$100 million in annualized revenue.

So at that valuation, assuming the low end, \$20 billion,

that means that the deal's valuing the company at 200 times revenue.

And then you compare that to OpenAI, which is already seeking a high valuation of around 80 times revenue.

And then you compare it to public tech stocks like Microsoft was at 11X,

Metas at 7, Google's at 6.

That valuation seems totally absurd to me.

Do you agree?

I wouldn't call it absurd.

I'd call it fucking crazy.

My understanding is OpenAI has a run rate of \$500 million

and is raising it \$90 billion, meaning 180 times revenues.

And Anthropic is raising somewhere between \$200 and \$300.

There's just no getting around it.

When you're raising money, if OpenAI can close around at \$90 billion

to get the kind of venture returns one expects,

that is 3 to 10X, you're talking about a company that's going to be

one of the 20 or 30 most valuable companies in the world

just to get its investors a return.

So I would argue that we're at, in terms of valuation, we're at peak AI.

And that if I were an employee of one of these companies,

I would be doing anything I could to sell into the secondary market of these valuations.

I think this is just extraordinary.

And that's not to say that these companies won't be enduring

and that at some point they might not be worth more.

I think out in front of us, call it in 12 to 36 months,

these companies are not going to trade at that valuation.

Just as Amazon hit a ridiculous several hundred times earnings in 99

and came down 90% and then went way back up over the next 20 years,

I think the same thing could happen here.

But in terms of a trade, I would argue that the juice has been squeezed here.

I think this is just crazy.

ByteDance, the thing that struck me, I actually think at 224 billion,

I mean, let me put it this way, would you rather have,

would you rather own ByteDance at 224 billion or OpenAI at 90?

ByteDance for sure, in my opinion.

100%.

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I think I would argue ByteDance is undervalued.

My understanding is its current revenue run rate and its growth next year, it will do more revenue than meta.

Do I have that right?

The only thing that we've seen is from Q1 of this year, and that was 25 billion, so we could just assume it's 100 billion.

Meta did 29 billion in the first quarter of this year.

So it's creeping up on meta for sure.

Right, and ByteDance is growing faster.

So it looks like next year it should blow by Meta, which I think has a valuation of 780 billion.

And if ByteDance is about to blow by Meta and it's growing faster, you would argue, well, okay, Meta has more diversity of revenues.

It has Facebook, it has WhatsApp, it has Instagram.

So you could argue it deserves higher multiple because of its diversity of its cash flow streams,

but in terms of growth, ByteDance is growing faster.

So either Meta is overvalued or ByteDance is undervalued is the way I would argue.

And then comparing it to AI,

it's hard to compare anything to AI right now.

Lou Apron, so I called this back in 2017.

The company has enormous acquisition costs.

It spent \$460 for each new customer in 2016.

Despite all those new users,

Blue Apron's revenue growth has been flat since Q1 of 2015.

Their IPO down round was likely the nail in the coffin.

What Wall Street doesn't get,

paying high cost of customer acquisition

and investing insane amounts in fulfillment doesn't work

when you have 60% customer churn.

At some point, like we saw with Flash Sides,

there will be a major correction.

I had spent a big part of my career in e-commerce

and consulting to catalog companies like William Sonoma.

And it's kind of like, it's all about retention, churn,

average order value, lifetime value.

And as part of the S1, when you looked at Blue Apron,

it was clear they just had no business.

It's something like 60 or 70% of people who use Blue Apron churned out within six months.

They just couldn't hold on to people.

And they were spending a lot more.

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They'd built a shitty business that when it scaled, just lost more money.  
It was sort of, it was sort of we work except sending kale and cashews to people or whatever it is you millennials eat.  
Whoever bought it, I would imagine is gonna, has a way to offer more products into this group.  
But that's off 95% from its peak.  
Sort of similar along the same lines, we work.  
Although I would argue we work, they say in hotels, here's some fascinating insight from the general consulate.  
If you're the guy that wants to own the Four Seasons in Manhattan, there's some psychic income there, but usually the first owner loses money.  
The second owner, which is oftentimes the bank or the people who lent you the money for your ego project come in.  
They're not operators.  
And they also lose money just not as much.  
Supposedly it's usually the third owner of a hotel that makes money.  
Somebody understands hotels, comes in and buys it for 40 or 60 cents of what originally cost to build the thing.  
And then they make money.  
I think the next owner of we work, I think it's gonna go into bankruptcy, but I think the next owner is gonna make money.  
Now, why is that?  
Retail is kind of tailor made for the US bankruptcy process.  
Because when a company declares bankruptcy or retailer, in the end of the day, we work as a retailer.  
They're selling desk space.  
They're selling an environment in desk space.  
You could say it's a cross between a hotel and a retailer.  
But when they declare bankruptcy, they can then go through and cherry pick all the leases and all the locations they wanna hold on to.  
So if we work has 1200 locations around the world,

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I don't know how many they have,  
they can just shut down 600 of them,  
get out from under the lease commitments  
because they have bankruptcy.  
And with the other 600 that are making money,  
they can say to 200 of them that are just on the edge,  
you either cut your lease cost for us  
or we're just gonna give you the keys back.  
They can seriously right size the cost here.  
And there is value in we work.  
It's a global brand.  
People, a lot of customers are really happy with we work.  
I think they do a good job.  
So the ability to go in and leverage  
all of that capital that was invested  
and cherry pick the two, three, six hundred  
of the 1200 locations that are making money  
and right size the cost dramatically,  
I think the next donor of we work  
is gonna make money here.  
I was gonna ask you  
if you would have any interest in going in yourself.  
It's \$130 million market cap.  
Could you put a group together and go in  
and sort of complete the we work story  
that would make headlines?  
Yeah, I think I don't know if it has debt,  
but my guess is or the debt is the leases.  
My guess is it's the bond holders  
that are gonna own the business  
and I wouldn't be surprised  
if the equity gets wiped out.  
So I think the way you'd play this  
is you'd go in and buy the debt.  
My activist days, I mean, I'm old.  
I just wanna sit in my basement in Marlborough  
with my dog and wait for the ass cancer.  
That's where I am.  
Yeah, no, I'm not gonna put together a group.  
I think that people are so fatigued around this thing  
that it would be harder is money for,  
but that's when you make money.  
We'll be right back after a quick break

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with a look at Ozempic's market impacts.  
This is advertiser content from Mercury.  
When you feel like wanting to be the best  
for me growing up,  
it felt like needing to be the best.  
I have been a gamer for as long as I can remember.  
I would play for eight hours a day  
and if I lost a game,  
I'd write the name of the person I lost to in a notebook  
and what they were running and what I could have done differently.  
I'm Josh Fabian. I'm the CEO of Metify.  
We take the best gamers in the world.  
We help them monetize their talent  
through content, coaching, competition and more.  
To excel in gaming, you need to be fast, nimble  
and willing to take risks.  
In other words, not something banks are known for.  
I chose Mercury because I liked their scrappy, hungry approach to business.  
They looked at a problem like banking  
and they said, for startups, we can do better.  
I tell other founders that startups move fast.  
It's confusing. It's chaotic.  
You need someone that's in the trenches with you  
that can keep up with how fast you're moving.  
Mercury is in the trenches with you.  
They're founders, like you.  
Learn how you can join a global community  
of over 100,000 startups on Mercury.  
A powerful and intuitive way for ambitious companies to bank  
by visiting [mercury.com](https://mercury.com).  
Mercury is a financial technology company, not a bank.  
Banking services provided by Choice Financial Group  
and Evolve Bank & Trust, members FDIC.  
Support for Prop G comes from Mint Mobile.  
Signing up with a big wireless provider  
is kind of like being trapped on an out-of-control roller coaster.  
Sure, it starts off smooth,  
but you'll immediately feel that pit in your stomach  
once you open that second month's phone bill.  
And then there's the endless loops you experience  
trying to navigate the unexpected fees.  
Well, if that sounds like your current big wireless plan,  
it might be time to get off the ride with Mint Mobile

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for a limited time.

Wireless plans for Mint Mobile are just \$15 a month.

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Prop G.

We're back with Prop G Markets.

A Barclay strategist report warned that weight loss drugs such as Ozempic could threaten the fast food industry and even proposed buying credit default swaps on big names including McDonald's and Pepsi.

In other words, short McDonald's credit.

The report added that these drugs could affect a number of other industries.

For example, anecdotal evidence suggests Ozempic dampens our addictive relationship with alcohol and cigarettes, which could weaken demand at companies like Altria and Constellation Brands.

Barclays additionally recommends credit protection against healthcare companies such as HCA and Boston Scientific, which generate significant revenue treating weight-related health issues.

Scott, this is a fascinating one.

What do you make of this?

So Goldman Sachs put out a report saying that they think AI technologies will increase GDP 1.2% a year because of increases in productivity.

The Milken Institute estimates that obesity-related costs in the United States are \$1.7 trillion a year.

It's everything from diabetes to hip replacements to depression to the additional fuel it takes to fly a plane with obese people on it.

It's just a \$1.7 trillion drag on the economy.

And if you think of the economy as being \$25 trillion, you're talking about 6.8% in costs that could potentially be reduced 50, 70, 90%.



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So if you want to talk about something that's accretive to the economy, everyone's talking about AI, but this drug, specifically the ability to take America's populace from 40% obesity rates say down to 10% or 5% or who knows, maybe even 0%. I think you're talking about something that has 2 to 4 times the impact on the economy as AI.

So I think this is the biggest business story of the year. Novo Nordisk, the pharma company behind Osempic in Bogovie, became the most valuable company in Europe this September, surpassing LVMH.

I don't know what kind of IP protection, but I think they could become one of the most valuable companies in the world.

At \$400 billion, it's worth almost as much as Denmark's annual GDP or its headquarter.

This past quarter, Novo Nordisk, I'm just going to go and call it N2, added 2% to Danish economic growth. Individuals on Osempic lose on average 11% of their body weight over six months.

The drugs also reduce the risk of heart attacks, strokes, and cardiovascular deaths by 20%.

I even saw some data saying that people on Osempic reduced their drinking by 60%.

The prescriptions are up fourfold from 2020 to 2022. 73% of Americans are overweight or obese.

I think the three and four people are overweight or obese, and it's not just obese people.

I know people who are obese who are taking this thing, because I can't lose that extra 20 or 30 pounds.

Morgan Stanley predicts 24 million people, that's 7% of the US population, could be taking GLP-1 drugs like Osempic by 2035.

And according to research, each patient will register on average a 24% reduction in total calorie intake per day.

Collectively, that's a 22 billion calorie reduction intake per day equivalent to over 36 million Big Macs that won't be eating it.

McDonald's sold 36 million fewer Big Macs per day.

The company would register a revenue decline of \$18 billion per quarter.

I mean, you just gotta think the fast food industry

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is gonna get kicked in the nuts here.  
Nobody, Ed, nobody, you're not from America,  
so let me just help you.  
Nobody walks into an RBS and thinks,  
this was a really good decision.  
The inclination to come to a place  
with a drop-off gelatinous cubes that they heat up  
and then slice and kind of parades or mimics  
or pretends to be beef, nobody goes in and thinks,  
yeah, I wish I could come back here more often.  
We referenced United Airlines could save \$80 million a year  
if the average passenger weight falls by 10.  
According to a Jefferies analyst,  
fuel and labor are the two largest expenses for carriers  
with fuel accounting for about 25% of costs.  
Exercise health companies,  
they say they're gonna start prescribing these drugs  
and they pick up, we could see alcohol  
really taken on the chin.  
I think both the kind of double whammy of people  
moving to more exotic drugs and CBD and PepsiCo,  
can you imagine what's gonna happen to them?  
PepsiCo, Coca-Cola,  
all the guys handing you over to the Diabetes Industrial Complex  
where you're gonna spend \$10 or \$15,000 a year  
on diabetes medication  
and then you're gonna go in for your first knee transplant  
and then you're gonna buy a scooter and then you're gonna,  
I mean, my God, it's just everywhere.  
Well, so just some statistics.  
So you mentioned 40% of America is obese.  
That numbers up from 31% in 1999.  
And then if you look at the performance  
of some of the stocks that they're warning about,  
so let's look at Pepsi, General Mills and McDonald's.  
In that same period, those stocks have increased 700%,  
760% and 1,200% respectively.  
And then you compare that to the S&P,  
which in that same period gained around 250%.  
So in McDonald's case,  
in the past two decades, it's outperformed the S&P by five times.  
I assume you think it's fair to say that the stock prices  
of those food companies are basically

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directly correlated with obesity rates in America.

Well, it's not me.

Look at the data.

You just cited the data, right?

As America gets fatter, these stocks, boom.

What happens when America gets skinnier?

That's basically my question,

which is just from a purely investing perspective.

These guys are suggesting,

okay, maybe you should buy some protection  
against these companies' credit.

What about the stock?

Do you think this is enough to go short these companies' stock?

I think there's a big play.

And let me be clear, this is an investment advice  
because my advice to anybody is just to buy ETFs,

low cost, Vanguard, ETF and index funds

because it's hard to beat the market

and all of us like to think we can beat the market,

but everything I'm talking about,

some hedge fund with a million PhDs is already traded on

and likely already priced in.

Having said that, I think if you raised money as a manager

and said, I'm the Ozempic fund or I'm the obesity fund

or I'm the skinny fund, whatever you wanna call it.

And I'm going short all of these companies

that would register a substantial,

you know, McDonald's, Walmart,

the company that owns Jack in the Box and Wendy's,

the companies that own all the donut places,

the hospital complexes.

There's gonna be a lot of hospital networks

that are gonna really suffer here

when people aren't coming in for their lap band surgery

or their diabetes medication.

What happens?

I mean, there's so many knock-on effects.

What happens to Moderna when COVID-19 isn't as big a killer

because 82 to 88% of all mortality,

there was a preexisting condition,

a comorbidity present

and almost all of the comorbidities were obesity related.

What happens when COVID and pandemic sweep through

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but we have a skinny population  
that quite frankly doesn't die from this thing.  
It's more like the flu.  
What happens when a society becomes healthier?  
We'll be right back after the break  
with a look at the bond sell-off.  
As a person with a very deep voice,  
I'm hired all the time for advertising campaigns.  
But a deep voice doesn't sell B2B  
and advertising on the wrong platform doesn't sell B2B either.  
That's why if you're a B2B marketer,  
you should use LinkedIn ads.  
LinkedIn has the targeting capabilities  
to help you reach the world's largest professional audience.  
That's right.  
Over 70 million decision makers all in one place.  
All the big wigs, then medium wigs,  
also small wigs who are on the path to becoming big wigs.  
Okay, that's enough about wigs.  
LinkedIn ads allows you to focus on getting your B2B message  
to the right people.  
So, does that mean you should use ads on LinkedIn  
instead of hiring me,  
the man with the deepest voice in the world?  
Yes, yes it does.  
Get started today and see why LinkedIn  
is the place to be, to be.  
We'll even give you a \$100 credit on your next campaign.  
Go to [linkedin.com](https://www.linkedin.com) slash scott to claim your credit.  
That's [linkedin.com](https://www.linkedin.com) slash scott.  
Terms and conditions apply.  
So, we've got three potential mysteries.  
Mystery one.  
I think there's a fourth mystery.  
Where is that sound coming from?  
You all hear it too, right?  
So, mystery one.  
No one answered my question.  
You hear it too, right?  
I don't know what you're talking about.  
Oh God, not again.  
This week on Unexplainable,  
comedian Wyatt Sennach plays our game show

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Unexplainable or Not.

He's got to guess which of these mysteries has actually been solved, and he gets to do it with the help of a packed live audience.

Wow, that's really helpful, huh?

Yeah, I don't know how people do it on the prices right.

To hear Wyatt do it on Unexplainable or Not, follow Unexplainable for new episodes every Wednesday.

We're back with Prof2Markets.

On Tuesday, the yield on 30-year US Treasuries

hit a 16-year high of 4.95%,

as a reminder, bond yields rise as bond prices fall,

and surging yields indicates there's been a significant sell-off in long-term US debt.

That bond sell-off follows a run of strong economic data.

Job openings, for example, rose unexpectedly last month.

In addition, the Federal Reserve has indicated

it will keep interest rates higher for longer to suppress demand and finish off inflation.

Now, today we wanted to discuss this topic with someone closer to the bond markets.

So we're joined by Josh Brown,

who is the CEO of Ritholt's Wealth.

Josh, thanks for coming on.

Ed, when you announce things, it sounds so official.

Doesn't it?

Yeah.

That's the only reason I'm here.

Can you imagine what we could have done with his looks and that accent?

Forget about it.

Forget about it.

Get to the questions, Ed.

Enough screwing around.

So the first question is just, we're seeing this huge sell-off in bonds, particularly long-duration bonds.

Why is that happening?

So there's an old saw on Wall Street that says the bond market is the smart money, but I think this year we have to add something to the end of that.

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The bond market is the smart money, if we're talking about short-term bonds, because if you think about what's gone on in the last 18 months as the Federal Reserve began hiking rates starting last March, the two-year bond yield has actually been very accurate and way ahead of the Fed. And in most respects, the Fed has been following the two-year bond yield higher. And that two-year bond yield, it's not magic. It's basically the sum total of all of the predictions of people who are buying and selling bonds about where things are headed. And so that two-year yield was rising faster than the Fed was hiking rates, the Fed operates on overnight rates. And that has been a pretty good predictor of where rates would go. And to a large degree, the bond market was very smart. Not at the long end. The long end had to be dragged up here, kicking and screaming. It's taken a year and a half for the long end of the curve, talking about 20-year treasuries, 30-year treasuries, the longest dated maturities, even the 10-year has lagged by a huge degree. And that's why we had what's called an inverted yield curve. It is unnatural for short-term borrowing rates to be as significantly higher than long-term borrowing rates have been. That curve is now un-inverting, meaning normalizing. And what that represents is that the long end of the bond curve was extremely wrong for all this time and is now catching up to the reality of what's actually happening. So, we're seeing basically the fastest interest rate increases in U.S. history, and you described the two-year yield catching up to the Fed's decisions. But when you look at the economy, those interest rate hikes haven't really taken effect. So, we were just talking about the job openings, which rose in August up from 8.9 million in July. And economists had expected that that number would drop. And then you look at GDP growth, the economy is expanding. It grew 2.4% in the second quarter.

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Unemployment rate is going up a little bit, but only slightly.

Historically, it remains pretty low.

Why do you think that these interest rate increases haven't caught up to the economy so far?

How does that relate to the yields that we're seeing in long-duration bonds?

It turns out, and this is the thing

when they write the textbook chapter about this period of time, this is what will be the gist.

It turns out that the economy is way less sensitive to short-term or overnight interest rates right now than it had been historically.

Think about why.

You had basically a two-year, almost three-year period of time where companies could refinance and then refinance again and then refinance again.

And there simply was not the need to have rates reset on a lot of debt.

Homeowners did the same thing.

Think about the people you know who own homes.

Most of them spent the majority of 2021 bragging about how low they got their mortgage rate to be.

The consequence of that is when the Fed starts hiking rates, there is a severe lag relative to history in terms of when we start to feel the effects of it in the economy.

Corporate balance sheets went into this weight hiking cycle in the best shape they've ever been in.

Most homeowners, like the typical household,

went into this weight hiking cycle as flush with cash as it's ever been

and go on down the list, all of the people who would normally be affected by higher borrowing rates, there was just a huge period of time before it actually mattered

and in some places it still doesn't matter.

Put that aside, typically where you would see the most sensitivity to rates would be in the housing market.

When you would see, historically,

you take rates from, well, you take a mortgage rate from 3% to 7% under normal circumstances

and we're not in normal circumstances.

## [Transcript] The Prof G Pod with Scott Galloway / Prof G Markets: Ozempic's Market Impacts and Surging Bond Yields – with Downtown Josh Brown

Under normal circumstances,  
you would have probably seen home prices drop 20%.  
Why didn't that happen?  
Because people are locked into these low rates.  
They're in no rush to sell.  
We've got different demographic phenomena  
in the form of people retiring  
and not giving up their primary home.  
Retirement home is now a four-letter word  
in the aftermath of COVID.  
Not a lot of seniors are in a rush  
to go off to one of these places  
given what happened during the pandemic.  
So you've got a lot of reasons why people will not sell.  
In the absence of selling,  
you don't get that decline in home prices.  
There's just not enough supply.  
Go through all of the major metropolitan markets  
that make up the K. Schiller Home Price Index  
and you just are not finding enough supply come on  
to move prices lower.  
And perversely, because there are so few homes for sale  
and because there's still going to be this percentage of people  
that have to buy a house no matter what the mortgage costs,  
we actually still have bidding wars in some markets.  
So the Fed has not been able to affect the housing market  
as it historically had  
and a lot of that is still coming from the...  
That weirdness is still emanating outward from 2020 and 2021.  
So that's, I think, the main reason  
why we really haven't seen prices reset  
and we haven't seen a bigger economic impact.  
Companies just don't need to borrow.  
They're flush with cash and homeowners are just...  
They refuse to sell in many cases and don't need to.  
Josh, if the equity premium that you get for buying stocks  
has been starved out because of the increase in interest rates,  
in a very reductive way, isn't it a good time to sell stocks  
and buy credit?  
This is the big push and pull  
that's been affecting the markets all summer.  
It probably started at the end of July.  
Stock prices topped out so far for the year



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and we've really seen people have trouble. People that are operating on this model, they've had trouble rationalizing owning certain areas of the stock market relative to what they can get risk-free in effectively overnight bonds. A six-month T-bill yielding north of 5%, why am I going to buy the equity of, for example, a utility stock that's currently yielding 3%? You say to yourself, so let me get this straight. I can have a risk-free six-month yield of 5% or I could be in the equity of a REIT, like I could be in a utility stock. I could be in a consumer packaged food company. I'm getting a lower dividend payment and I have all the volatility to stock market and people are opting for the former, not the latter, and that's what has created this huge burst in volatility that we've been living through in the last six weeks. Stocks really haven't come down. I mean, there's been a little bit of a curve. It doesn't make any sense to me. You think, okay, interest rates go up, stocks come down, but stocks have not come down anywhere close to proportionally. I think we have to qualify what we mean when we say stocks. If we're referring to the S&P 500, it is absolutely true that there's been a much more resilient tone. Look, Apple's in a 12% drawdown. Tesla's in a 40% drawdown. We can't say stocks haven't come down, but I think what we can say is that the larger the market cap of the company, the less of a drawdown we've experienced, and actually we did this research last week. If you break the stock market, the Russell 1000, so this is all the large caps that trade, such as S&P, if you take the Russell 1000, you break those companies up into deciles. The thing that has determined whether or not your share price is higher on the year is the size of the market cap. So the top two deciles are the only deciles where the stocks on average are up on the year.

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The bottom eight deciles, so let's say 800 of the Russell 1000 on average are actually negative, and it's pretty cleanly delineated by how big the company is. And that makes sense.

That makes sense because think about it.

A company like Apple that's got access to hundreds of billions of dollars worth of cash, when they sell bonds, they effectively sell bonds at a AAA rating.

It's almost like a sovereign country whose house is in order selling bonds.

Why would Apple be sensitive to a higher interest rate?

It doesn't hurt them one bit.

Maybe there's a second derivative where it hurts their potential consumer.

We haven't seen that show up in the earnings or in the demand for their products at all, not yet at least.

So that's when you say the stock market, Scott, this is important.

You're referring to the S&P 500.

The S&P 500 is by definition dominated by these larger market cap companies, and these are the companies that have the least need to refinance at higher rates and will be, therefore, hurt the least by higher interest rates.

It should really be the S&P 7, right?

The Magnificent 7.

The Russell 2000 is in a huge decline.

The Russell 2000 are the smallest 2000 publicly traded companies in the U.S. market.

These are not tech companies, for the most part.

These are biotech, smaller banks, industrials, healthcare companies.

They have gotten absolutely killed.

So we have to be careful when we say the stock market did this, the stock market did that.

There's a lot of strength in the apples and the Microsofts, and that is masking all of the weakness below the surface.

Do you think that there's more pain ahead?

I mean, when interest rates were rising,

everyone said a recession is coming,

and now, I mean, you make a good point about the Magnificent 7.

And it sounds like what you're also suggesting

is that there's going to be more refinancing ahead.

So where do you stand on the recession question?

Do you feel like maybe in the next six or eight months, there could be a recession coming?

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There could always be a recession coming in any six or eight month period, and I won't be the person that sees it first.

Here's what I want to tell you.

It is not impossible to have rates where they are today and have a stock market perform well.

And as evidence, go back to the 1990s.

Do you know what the average yield on the 10-year treasury was throughout the 1990s decade?

It's about 5.2%.

Pretty much where we are now.

The shock here is the speed with which rates have moved, the reason for why they're moving, sticky inflation, right?

And now, the new question is,

well, for how long will they, quote, unquote, stay up here?

Meaning we have gotten so accustomed in the investment markets that at some point, something would break,

and then the Fed would have to step in and start cutting rates.

I mean, this is basically what life has been for the last 30 years.

1987, the lesson that Alan Greenspan took away from 1987

was that he could prevent a stock market crash from spilling over into the real economy.

He did it.

He cut rates during the crash,

and actually most people don't know this.

The S&P 500 finished 1987 positive, literally.

So that was the takeaway.

And then every crisis since then, it was the same playbook.

Not long after, nine years later, 1998,

you had a global currency crisis.

Asia had a meltdown.

Russia devalued the ruble.

The Fed was cutting rates into an expanding economy.

They were not cutting rates to save GDP growth

or for employment's sake.

Literally, they cut rates to save the market.

And guess what?

It worked.

1999 is one of the greatest stock market years in history.

So this has been the playbook.

The Fed has done this over and over and over again.

That is what the market has come to expect.

We used to call it the Greenspan put.

Now we call it the Fed put.

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So now the question is, well, the Fed has hiked a lot. Nothing has really broken yet of consequence. We lost a couple of banks out west that were doing stupid shit, and we probably should have lost them anyway. But we really haven't had a systemic issue. So when will the Fed be cutting rates? That's still how people are thinking about the next upside catalyst. It's crazy, but this is what we've become accustomed to. If you started trading and investing in the last 20 years, it's all you know. The Fed has to cut rates sooner or later. So now it's this higher for longer question. I can't resolve it, but let me say this. From 1958 through today, nominal yields, this is important, nominal, the distinction, nominal yields, not inflation adjusted, averaged 5.7%. So we're at five and a quarter. So we are well within the history going back to 1958. Real rates, real yields. So what that means is the nominal yield minus whatever the inflation rate is, averaged 2%. We are just hitting 2% now in real rates. If the 10-year is at 4.7, and we think inflation should finish the year 2.7 to 3, we're just about 2% real yields, which again is normal. What's not normal is what's gone on in the last month. Long-term yields have been moving at the end of June. You had a 30-year at 3.85%, and this week it's at 4.85%. The TLT, which is the ETF that owns long-term bonds, that's where, if you're following along at home, that's where you can see the damage, absolutely hammered. The TLT is down 43% from the highs of late 2020, back when we thought interest rates would be zero forever, and we were all going to die of the pandemic. Short duration is now not moving anymore. BIL is the ETF you can use to see short-term treasury bonds. That is done moving, and so all of the action this past month is in the long end.

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Remember how I started this off?  
I told you, long-term bonds are first now  
figuring out what the short-dated bonds  
have known for a year and a half.  
Josh, if you think about 2024...  
I try not to.  
But if you're forced to,  
aren't we just so overdue for an actual recession  
at the same time,  
you usually don't have them in election years?  
Doesn't it feel like at some point,  
and back to your point,  
if you predict a recession for long enough,  
eventually you'll be right,  
but doesn't it feel like we've been dancing  
in the raindrops for so long  
and there are so many wins  
that are slowly picking up in our face?  
Well, you need a shock.  
People are not all of a sudden going to,  
of their own volition, decided to recession  
and curtail their lifestyle accordingly.  
So you need something to happen.  
In 2000, it was the tech bubble blowing up.  
It was a very mild recession.  
In fact, most people didn't feel it at all.  
If they weren't invested in Nasdaq stocks,  
you have to almost convince them that there was one.  
Fuck, I got run over by a truck.  
I literally...  
I got run over by it.  
You mean there was something outside of the technologies?  
I was living in San Francisco.  
I started coming to go red envelope.  
Literally, that was Vietnam for me.  
You were the pets.com stockpub.  
All right, but you'll concede most people weren't.  
Agreed.  
What happened five years later  
in the great financial crisis is different.  
It affected everyone.  
This is not that.  
We do not have borrowers extended

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to the extent that they were.  
The credit quality of the recent vintage mortgages that are buying all these homes is way better.  
The banks have significant regulation that they want to play fast and loose with lending. They can't.  
They can't hold the stuff on their balance sheet. They've got to mark their portfolio to market if it's held for sale, if it's held for maturity, that's a separate portfolio and that's treated differently.  
But the financial controls are there. Yes, they're shadow banking.  
Yes, there are some lenders doing some crazy shit over the last couple of years, but nobody that's systemically important. And that's a really big difference between whatever we're about to go through in 2024 versus what we've gone through historically.  
So you need the shock. What is the exogenous shock that's going to happen that's going to all of a sudden make the recession real? Until then, look, in last year, 2022, they were doing these CFO surveys. They were asking like thousands of CFOs at public companies like, is it a recession?  
And that unanimously they said, yeah, recession's coming.  
So paradoxically, if everybody gets themselves prepared for a recession, it's hard to have one because you don't have people acting out the way that they normally would at the tail end of a boom.  
So we might have almost like talked ourselves out of a recession this year.  
I don't think we can forestall it forever. A recession is always coming, but like the timing is really difficult and then the severity and then the duration. What if we had a two quarter recession?

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I would argue Silicon Valley had a recession last year.  
In fact, the tech layoffs peaked in January of 2023.  
We had mass layoff announcements every day of the week  
in the entirety of the second half of 2022.  
And then look at a startup valuation.  
Scott, you know more about this than I do.  
It's possible that we had a localized tech  
and telecom and media recession.  
It affected Netflix way more than it affected  
somebody who owns a gas station.  
And, you know, we've had those before in 2015, 2016.  
Texas had a recession.  
Most people don't understand that a price of oil collapsed.  
And if you lived in Oklahoma, Texas,  
certain parts of certain regions, you know,  
you experienced what felt like a recession.  
We have clients that are executives  
or oil companies, they told us about it.  
So it is possible to have a rolling recession  
that doesn't go nationwide, all segments,  
all regions, all at once.  
And that becomes a trickier world to navigate  
if that's where we are.  
But that fragmentation lines up with the fragmentation  
that we're seeing everywhere else.  
I was listening to Warren Littlefield talk about the 1990s  
and the must-see TV era  
and how Cosby would get a 52 share.  
That means 52% of the people watching television  
were watching Cosby.  
That world doesn't exist anymore.  
So if you have that level of fragmentation elsewhere  
in the economy, why couldn't we say overall  
certain parts of the country  
or certain cities might have a recession  
and others might avoid it?  
If you were to pick one thing, Josh,  
that we're missing about the economy and the markets right now,  
where you think there's some dissonance  
or disconnect between reality  
and what's being reported in media, what would it be?  
I'm hearing a lot about the death of the 60-40 portfolio.  
I've been hearing it since January.

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Most of the people saying it, they're journalists, writing articles that you will click on. So I get it. I understand the mentality. The 60-40 portfolio right now today is actually a healthier proposition than at any time in the last 15 years. I want you to think about this. There are no rules of thumb in the market that work. There's no right PE to buy stocks at, price earnings ratio. There's no right dividend level. There's nothing that works formulaically so much so that we could say, oh, yes, this is the right answer to that. There's something that gets really close. The relationship between starting yields of a bond portfolio and their subsequent forward returns is really strong. Like, I mean like an R-squared like 93% or something, meaning if starting yields for long-duration bonds, a 30-year treasury, are 5% right now, there is an extremely high, almost 100% probability that your returns over the next 30 years from this starting point will be something on the order of 5% a year. Now, it's lumpy. It's not going to line up each year. Oh, there's my 5%. That ain't how it works. You're going to have a lot of volatility in the price along the way. But if you think about a 10-year treasury yielding 5%, you could almost set your watch to the idea that 10 years from now, you will have received a 5% return. That's total return, not just the income, the coupon, but the price and the yield. So if we know that that relationship is as close as you get to an iron law of finance, that starting yields today will dictate forward returns. If we know that, then arguably the 60-40 has never made more sense in the last decade and a half than it makes today. I'm giving you a starting yield. Let's say you buy the Barclays aggregate bond index. That's like the S&P 500, but for fixed income. It's almost all treasuries and a little bit of very highly rated corporates, right? If I'm giving that to you at 4.5%, there's a very high likelihood



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that over the next 10 years, you'll be able to look back and say, wow, I earned about 4.5% a year.

So that's a really good starting point for the fixed income portion of a 60-40, way better than three years ago, when the best you could hope for from the bonds was low volatility and virtually no return.

So as a portfolio manager, as a financial advisor, as somebody that's helping people make this decision with tens of millions, hundreds of millions of dollars, that's one of the biggest misconceptions that I want to clear up.

Two, spreads have not blown out.

And until they do, I'm going to define that in a minute, until they do, stop saying recession.

It's like ludicrous.

What are spreads?

Credit spreads.

When you buy a corporate bond, you're getting a higher interest rate than you would get from an equivalent maturity and a treasury.

So if I lend money, for example, to Microsoft, I should be maybe Microsoft's a bad example.

It's almost like a sovereign nation.

Let's say any other stock you could think of, salesforce.com.

If I buy a 10-year bond from them,

I should be getting a higher return than if I buy a 10-year treasury.

Why?

I'm accepting more risk.

Therefore, I should be getting more income for taking that additional risk.

This is like 101, okay?

All right.

Until we see a scenario where the yields on corporate bonds are blowing out, meaning going substantially higher than the equivalent maturity treasury bond,

then we are not in a situation where recession is even on the menu.

That will be one of the things that happens that tells you things are deteriorating.

When people are less willing to accept the risk of those corporate bonds, therefore the bonds sell off, therefore the yields go higher on those bonds, that will be when you know that we are truly pricing in a deterioration in the landscape.

The bond investors will be a lot more risk averse than the equity investors.

They will not hold a bond that they don't think they're going to get paid back on, and you will see spreads blow out.

You'll see the treasury yield stand still,

and you'll see the corporate bond yield start to shriek higher,

and that's a canary in the coal mine that just has not happened yet.

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In fact, you want to laugh?

Look at year-to-date.

High-yield bonds, junk bonds, and investment-grade corporate bonds are actually outperforming treasuries year-to-date.

Not only are they not pricing in any kind of deterioration, they're actually doing better than treasuries, which is perverse.

It shouldn't be that way, but it is that way, and I don't think most people understand that.

Just to wrap up here, and I really enjoy hanging out with you and Barry.

My sense is one of the amazing things about the market is that at the end of the day, none of us know.

Barry knows. The rest of us don't know.

But we do know some things.

You were talking about the 5% rule.

The only truisms I've come to is that, one, diversification, and two, patience, or just time.

That if you're diversified and you're willing to put stuff away for a while, pick any five S&P stocks since the beginning of the S&P.

If you hold them for 10 years, no one's ever lost money.

Isn't at the end of the day the only thing we know is diversification and time?

You have to have a philosophy that says, long-term, overall,

I'm willing to bet that American companies are going to increase their profits and that investors are going to be willing to pay more for those profits as time goes on.

You have to make that bet to be a long-term investor.

Your fundamental backdrop of everything that you do has to be that companies get better, products get better, technological advances occur, and the quality of life improves.

And as a result, more money is made because the company's doing that or doing that with a profit motive.

If you have a world philosophy that differs from that, you're probably not going to be a great investor.

You might be a great trader and some of the better, shorter-term macro traders are way more bearish than that statement I just made.

But for most people that are not going to try to fight the world and convince 100 million investors that I'm right, you're wrong.

For most normal people who are just going to allocate and be patient, that has to be the philosophy that you have.

I think the real thing that I would want to say, though, especially to your audience, Ed, how old are you?

24.

Okay. Do you want the stock market to go up or down this year?

Up, please.

Why?

Want to make money.

But you're buying stocks on a regular basis.

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Okay.

If you haven't figured out the trick yet, I do CNBC, and the audience skews rich and old.

Not like too old.

I love the audience, but they're older.

They're not you.

They're not 24.

Oh, boss.

CNBC, the average age of a CNBC viewer is dead.

All right.

Jesus Christ.

Stop.

It's older than our elected leaders.

Fine.

Listen to me.

The CNBC audience, they have most of the money that they're ever going to make already invested.

Of course, they want the market to go higher.

That's not you.

You are a forced buyer of stocks and bonds every two weeks when you get your paycheck, assuming Scott is paying you.

Someone will be paying you.

For the next 50 years, you have no choice but to buy into a 401K, into an IRA.

You're a forced buyer.

Why on earth would you be rooting for higher prices?

Why do you want to buy stocks from my parents at higher prices?

How does that serve your interest?

It doesn't.

The number one thing I want this audience to hear from me, you have got to flip your mentality around.

If you're not using the money inside of the next two years and you're a forced saver, by the way, I am.

I'm 46.

I'm allocating a 401K, adding to it every two weeks.

If you're a forced buyer and not using the money, why on earth would you want to be buying at ever higher prices?

It makes absolutely no sense.

Now, the one thing that younger people should root for the market to at least be stable for is they're probably the first people to get fired when share prices drop and companies start letting people off and restructuring.

Okay, fine.

So from that standpoint, you're probably not rooting for a crash.

You should absolutely not be rooting for 14% annual returns because all that's doing is guaranteeing that you're going to be paying more and more and more for your investments.

You want to buy low.

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Nothing could be better for your generation ed than a lost decade where stocks are volatile but go nowhere.

Because in the subsequent decade, when we go from Dow 35,000 to 55,000, you will have accumulated that much more, that many more shares in these companies.

And again, you are forced to.

We have organized this country around a 401K.

Literally, it's the only way to survive is to have an investment portfolio.

Almost nobody can live on their wages alone throughout the course of their lifespan.

So I want you to stop rooting for new record highs and focus on your career and let the markets do what they will do and never feel despondent about selloffs or volatility.

Those things are helping you accumulate more stock as time goes on.

That's great advice.

Awesome.

Josh Brown is the co-founder and CEO of Rithold 12th Management, a New York City-based investment advisory firm managing more than \$4 billion in assets for individuals, corporate retirement plans, and foundations.

Josh, I just love, I love how you just kind of break it down and I think you're just a huge asset.

Whenever I see you on CNBC, I actually turn up the volume.

Thank you, Scott.

Thanks, brother.

Okay, let's take a look at the week ahead.

We have a consumer price and producer price indices for September and we'll see the minutes from the Federal Reserve's last meeting.

And finally, third quarter earning season kicks off with JP Morgan, Citibank, Wells Fargo, and PNC reporting.

Scott, do you have any predictions for us?

We're beating a dead horse here, but the indices that track the snack food industrial complex and some of the bigger retailers that sell foodstuffs, Kroger's, Walmart, PepsiCo, Coca-Cola.

I think we're going to see fairly serious drawdowns and there's just going to be more and more in the media about the impact of these breakthrough drugs.

This episode was produced by Claire Miller and engineered by Benjamin Spencer.

Our executive producers are Jason Stavros and Katherine Dillon.

Mia Silverio is our research lead and Drew Burroughs is our technical director.

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