The Economic Club of New York

112th Year
507th Meeting

Stanley F. Druckenmiller
Chairman & CEO
Duquesne Family Office LLC

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Moderator: Scott Bessent, CEO and
Chief Investment Officer
Key Square Group

Introduction

Vice Chairman, Glenn Hutchins

Welcome to the 507th meeting of The Economic Club of New York in our 112th year. I'm Glenn Hutchins, Vice Chairman of the Club and co-founder of North Island. The Economic Club of New York is the nation's leading nonpartisan forum for speeches on economic, social and political issues. More than 1,000 speakers have appeared before the Club over the last century and we've established a strong tradition of excellence, which I'm quite confident will persist and be reinforced today.

Before we get started I want to take a moment to thank the many members of the Centennial Society who are attending here tonight. The Club is, I think, one of the best bargains in New York. So, you should all join, if you're not members. But, the Centennial Society are those people who've actually chosen to give us more money to support the operations of the Club and made capital gifts. And they play a special role in assuring that the Club remains financially sound now and in the future.

We'd also like to welcome our 2019 Class of Economic Club of New York fellows who are young and up and coming members of our business and technology communities and financial communities in New York. It's great to have you with us tonight.

It's my pleasure today to introduce our speaker this evening, Stan Druckenmiller, Chairman and Chief Executive Office of the Duquesne Family Office, which he founded in 1981. And which he ran until he closed the firm at the end of 2010. From 1988 to 2000 he was Managing Director of Soros Fund Management where he served as a Lead Portfolio Manager. By the way, I should say, I'm supposed to give this bio, but if you don't know Stan's bio, you're probably in the wrong room. (Laughter) And there will be a test afterwards, whether I got it right. Anyway, he was Lead Portfolio Manager of the Quantum Fund and Chief Investment Officer of Soros. And had overall responsibility for funds with an asset value of at least $22 billion.

Stan is also, as evidenced by who he's sitting with here tonight, is an active member of our community and very involved in philanthropy. He's Chairman of the Board of the Harlem Children's Zone, an organization I think very, very highly of. Chairman of the Blue Meridian Partners, Board Member of Memorial Sloan Kettering. They are already talking about; they're worried about their investment results for today. And of the Environmental Defense Fund. He's a member of the investment committee, anybody who has Stan on his investment commitment is very fortunate, of Bowdoin College and co-founder, I think it's his fund, and board member of the Kasparov Chess Foundation.

The format today is that we are fortunate to have another great investor, a friend of mine, Scott Bessent, Chief Executive Officer and Chief Investment Officer of the Key Square Group, doing the honor of speaking. Scott was the Chief Investment Officer for Soros Fund Management, the investment vehicle for the Soros family and their foundations from 2011 to 2015. Frequent contributor to the international economy, including a recent article, recently informing the Fed, he was kind enough not to press me on that during cocktails.

From 2006 to 2010 he was an adjunct professor at Yale where he taught economic history. He's profiled in the book *Macro Investors - Inside the House of Money*. And featured prominently (sound went off) of history of hedge fund, *More Money Than God*. He's a frequent speaker on economic and investment panels, and Scott, thank you very much for being here today to do this.

Many of you in the audience have shared your questions in advance. Those have been given to Scott to inform the questions which he's going to ask. At the end of their conversation, I'll come back up to the stage and we'll ask for questions from the audience, which I recommend being substantive and short. I just want to remind everybody that this conversation is on the record and being carried live. Gentlemen the stage is yours.

Conversation with Stanley F. Druckenmiller, Chairman & CEO, Duquesne Family Office LLC

SCOTT BESSENT: Thank you Glenn. I'm excited to be here today, and to interview my friend and mentor, Stan Druckenmiller. We've got a lot to cover. We have the sputtering economy in the U.S. and the rest of the world. The flip-flopping Fed. The petulant president. A little China syndrome, and then, maybe some advice on how to navigate these conditions.

To begin with I would say, I've had mostly the good fortune of speaking to Stan every week for a couple of decades. And I say mostly because if he's having a bad day, you're going to have a bad day on the phone. So, I thought tonight we would go through the equivalent of one of our phone conversations. Why don't we get right into it?

You don't speak very often in public. And you and Kevin Warsh penned an article in the *Wall Street Journal* this past December, outlining why you thought the Fed was making a policy error if they raise rates. I'm curious, what you were thinking then, because for the past three or four years you had been urging them to raise rates.

STANLEY F. DRUCKENMILLER: Correct. I love to contradict myself. (Laughter) I need to go into a little background with the first part. The answer to the first question is, even though I thought rates were still too low, relative to maybe where they should have been by that time period, we had observed that the global economy, particularly trade – this was pre the latest antics – was starting to slow down and we were afraid it could seep into the U.S. economy.

Probably more important in my mind, we were in a meltdown in financial conditions. And, since 1913, when the Fed had been founded, the Fed had never hiked with the decline we'd had in the S&P and other indexes, going into that.

Now, that was the primary reason. The editorial has been way over read and way over analyzed.

The last two words in it were for now. The Fed shouldn't hike for now. Take a pause, and just see how things develop. There's some background, though, Scott. You're correct, let me start form the very beginning.

I will go to my grave and – often wrong, never in doubt – believing that really loose monetary policy greatly contributed to the financial crisis. There were obviously problems with regulation. But, when we had a 1% Fed Funds Rate in 2003, after, to me it was pretty obvious the economy had turned. And I think the economy was growing at 7 to 9% nominal in the 4th quarter of '03. That wasn't enough for Fed, they had this little thing called considerable period on top of the 1% rate, just so we would make sure that their meaning was clear. And it was all wrapped around this concept of an insurance cut. The last one on insurance policy. But, the history of what I have seen and I've made some money predicting boom/bust cycles. It's what I do. Sometimes I'm right, sometimes I'm wrong. But, every bust I had ever seen was preceded by an asset bubble generally set up by too loose policy.

The latest one at that time period that had just occurred was, obviously, Japan responding to our pleas and their own after the Plaza Accord, setting up the bubble in the second half of the 80s and then we all know what happened in the 90s. So, that's sort of the background I come at this with.

SCOTT BESSENT: Stan, so we can go to more recent history, this time last year, you got the

Alexander Hamilton Award from the Manhattan Institute.

STANLEY F. DRUCKENMILLER: It was really slim pickings, obviously.

SCOTT BESSENT: Nikki Haley was on the other side.

STANLEY F. DRUCKENMILLER: I was on it for my looks. She was on it for substance. (Laugher)

SCOTT BESSENT: They needed an opening act. (Laughter) You said, if I were trying to create a deflationary bust, I would do exactly what the World Central Banks have been doing for the past six, now seven years. What did you mean by that?

STANLEY F. DRUCKENMILLER: So, I think Bernanke and the rest of the Fed did an unbelievable job, once the bust occurred. In '09 the QE was aggressive, it was decisive, interest rate policy, everything they did was spot on. But coming out of the crisis – and I'd loved QE1 – coming out of the crisis QE2, I wasn't thrilled with. QE3 I was really disappointed with, and the reason was, I was very fearful that the emergency days were over and the possibility was we were going to set up another mis-allocation of resources, the most recent was obviously the one I referred to, which was the low interest rates, which created the housing bubble.

I mean, 2012 came around, 2013, 2014, the economy kept getting better and better and better. And every time I would give a talk like this, which was not very often, and everybody said, well, what would you do, would you actually raise rates. I said, yeah, I would sneak one in every time financial conditions allowed. And hopefully by some point, rates will be high enough that we'll have an appropriate hurdle rate for investment, where people won't be doing stupid things, like they have in last asset bubbles.

But, as you know, Scott, we got all the way into 2014 and 2015 and we're still doing QE3 and I was just afraid that people were going to start to do stupid things, and indeed they have. I'll just give you a few things that occurred since 2010.

So, corporate debt in 2010 was $6 trillion. It's now $10 trillion. So, it's grown 65%. I don't know what anybody thinks about that. It's not necessarily a disaster, it depends on what they borrowed. But, I would point out that during that same period, corporate profits grew from $1.7 trillion to $2.2 trillion. That is cumulative over eight years. So, on a $4 trillion increase in debt, we got $500 billion in corporate profits, but it's worse than that. The interest cost on the extra $4 trillion in debt, only went up 23% from $475 to $565 billion. So, think about the horrendous productivity of capital here.

You increase your debt 65% but your interest costs only go up 23%. You would think your profits would explode with that formula. They went up 29%, over eight years. Not in one year.

They compounded with less than a 3-handle. You might ask, wait, wait, corporate profits have been great. No, I'm talking about total corporate profits, not earnings per share, which is the other mis-allocation of resources. During that time period, 5.7 trillion buybacks, financial engineering, versus 2.2 trillion in capital expenditures. And if you go back to 2010, capital expenditures were 20%, I'm sorry, buybacks were 20% of capital expenditures, they are now 55% with a much higher stock market.

You can sort of see where I'm going with this. You're getting a pretty gross buildup in the private sector. And by the way if you look at it, the companies that are growing and innovating, they're not the ones who are borrowing the money. It's not Google or Facebook. They're spending their brains out on innovation. It's old dying retail companies, companies with by the way 24-square-feet per capita in this country, and that number is 3 in Germany and 2 in China. But we have all these zombies walking around. Here we are in probably the most innovative, I would say, economic disruptive period since the late 1800s and you hardly see any bankruptcies. Because there have been no market signals from the Fed. Now this is pre the last year. We'll get into that.

But, there's one other problem with all of this. And that's our government. Government responds to market signals too. And the clowns in Washington, unless they get a signal from the bond market, they're just going to keep spending. So, for the first time in history, we have massive deficits at full employment. Estimates are this year there will be $1 trillion, God help us if we get a recession if you just take the mean of what happens in a recession, that would go to $1.8 trillion. Debt to GDP has gone from 65 to 105. So you get the drift.

This is where we were going into this fall. I felt that Bernanke and Yellen in particular, there were so many opportunities to just put a quarter in, quarter in, while financial markets were booming, but fear of deflation prevented them from doing so. There's this belief at the Fed that if you're near the zero bound, you're near deflation, and that can cause...that's the boogie man that we dealt with in the 1930s. The Japanese dealt with. But, I've never seen a deflation happen because you were near the zero bound. Every one was preceded by an asset bubble.

We, to me, are creating a mis-allocation of resources and an asset bubble that could set up a deflation and that's why I said what I did. Pretty long answer to a simple question.

SCOTT BESSENT: So, the Fed shouldn't be taking a victory lap. We've had mal-investment, no hurdle for capital, what are your thoughts on the new inflation target, and how did QE contribute to income or wealth inequality?

STANLEY F. DRUCKENMILLER: I just don't understand the 2% inflation obsession. We had 3% deflation in the late 1800s and the economy grew at 8% real for ten years. We had inflation of less than this level in the 1950s with the Fed Funds at 4, and we were just fine. It's very clear to me, but obviously not the Fed – and they got the PhDs, not me – that you need a hurdle rate for investment, and if you don't have a hurdle rate for investment, bad things happen. There are periods when, maybe a minus 1% inflation rate is appropriate and other periods where it might be 3 or 4, it depends on what's going on. But we are in the middle, in my opinion, of one of the great productivity shocks in the last 150 years.

I understand the government statistics don't show it, although we just had a very good quarter in productivity. But, to me, it's immeasurable because our measurements haven't caught up with it yet. And by the way I don't have the answer to the measurements, I just know they're not right. I'll just give you a couple of examples. Three and a half billion searches a day on Google, YouTube in the last 60 days has had more content uploaded on it, original content, than the entire television industry has done in the last 60 years. In 2010, we took 300 billion pictures. Last year we took 2.5 trillion pictures. We took more pictures last year than since the beginning of civilization. The marginal cost of those pictures is zero. The quality with the phone in my pocket, is better than it was with the best cameras ten years ago. And in GDP accounting, okay, since you're not paying $.50 to go and get your Kodak film processed, it actually subtracts from GDP accounting.

Now I understand, they get some advertising, it goes over here. But there's no way to measure this stuff. And I could go on and on. I think everybody in this room, there was a study out of MIT that you'd pay $18,000 a year to use Google search. I'd pay a lot more than that. $3,500 to use Google Maps. All of this stuff is free. So it's mis-measured.

The same thing with inflation by the way. So, why in the hell, we're sitting here going, ugh, 1.4, 1.6, 1.7, we don't know what these numbers are. We don't know what GDP growth is. We don't know what inflation is. And we are in a productivity boom, so I'm not convinced that minus 1 or minus 2% deflation wouldn't be bad. We're all going to say, oh my God I'm not going to buy something this month, because Google is making my life cheaper.

SCOTT BESSENT: If we've had a positive supply shock, then you're view is low inflation and disinflation aren't bad. Is it possible the Fed...

STANLEY F. DRUCKENMILLER: But asset bubbles are. But, go ahead.

SCOTT BESSENT: Yes. So, the Fed is focused on the disinflation and the asset bubble is blowing up over here, as a result. But, is it possible they just missed the secular dynamic of platform companies and the sharing economy?

STANLEY F. DRUCKENMILLER: I guess so. I don't understand all of this stuff. You know, r*, u*, z*, they just look like...with all of this stuff going on, to be talking about that, just sort of astonishes me. And it would probably be about 50th down on my list. I had a colleague, it was not Kevin Warsh – I swear on my children – who was at the Chicago Monetary Conference two weeks ago, or it was a week ago, it was a Friday, and I said, how did it go. In the meantime we had done all of these tariffs, all of this crazy stuff. Oh, it's the night of the tariff thing, when Lee

Ho is going back to China. And the markets hit a complete meltdown, and I said, how was the conference. He says, oh, they're really feeling much better about things and they're very comforted. And I said, why? Because Michigan inflation expectations, five to ten years out, ticked up from 2.5 to 2.6. I'm like...seriously. This is what we're focused on in this country.

By the way, no kidding, these guys all have 30 IQ points on me. So I just don't get it.

SCOTT BESSENT: Well we just had one of the biggest two day moves in the history of a two-year, so maybe they were focusing on the wrong thing. Who knows? So, why don't we talk a little about your economic methodology. Stan always taught me the micro drives the macro. Can you explain what that means and how you use it?

STANLEY F. DRUCKENMILLER: Well first of all, I was a drop-out of the PhD program in Michigan. We'll start with that. When I got in the business it became clear to me that, well, macroeconomic statistics are not great in terms of predicting the economy. They are really great in terms of telling where you are and where you've been, but in terms of predictive ability, they are not great.

By far the best economic predictor I've ever met is the inside of the stock market. I don't mean the stock market; I mean the inside of the stock market. And that's looking at cyclical companies within the stock market, and I particularly like, because it tends to be the right kind of timing, trucking, retail, that kind of stuff. The Russell 2000. If you just look at the periods I've analyzed, generally those stocks start going down and defensive stocks and secular growth stocks start going up on a relative basis.

SCOTT BESSENT: So, what's that telling us now?

STANLEY F. DRUCKENMILLER: It's very clear, the XRT, the retail index is down 24% since the high in August. I think the stock market is only down 7 or 8%. It was 5 when I was preparing for this. The Russell 2000 is down 15% with a lot of breadth in that decay. The S&P metals is down 20% and until today, which hopefully was some algo, otherwise I'm just dead wrong, which I am occasionally. It's been very clear, all of that stuff is at 52-week relative lows and all the companies you would analyze that probably do about the same in a 1% nominal economy is a 3, they're all at relative highs. So, the inside of the stock market right now, it's not saying we're going to be in a recession but it's saying you better be careful and keep your eyes open. Ed Hyman is in the audience, one of the people that taught me a lot of stuff in the business.

That's the other thing, we just talk to companies and some companies you know, lead the cycle, and some companies lag the cycle. And you don't really like to talk to the CEOs, you talk to the purchasing manager. And that's more mixed right now. It's not that clear.

Another indicator we use, I've never seen a recession before corporate profits peaked. It hasn't happened. That was great news until two weeks ago when we got our first flow of funds account and it turns out corporate profits look pretty bad in the first quarter. They were down and if you look at margins, and labor, tariffs, everything else going on, it's inconceivable to me that, that wasn't the peak in corporate profits. So, we're now five months into that.

I am not willing to say we're going down, but I'm willing to say there's a lot of warning signs out there that give me great caution.

SCOTT BESSENT: Down in the economy?

STANLEY F. DRUCKENMILLER: Yes. And not to mention the obvious, trade wars, killing animals, spirits, all that kind of stuff. I'm trying to cite some of the unobvious.

SCOTT BESSENT: One of the big debates over the past 12 months has been quantitative tightening. The Federal Reserve insists it doesn't exist. Have you seen it?

STANLEY F. DRUCKENMILLER: I'm just a dumb money manager. I remember in 2010 whenever they did QE1, arguing with some of my peers before it happened, that QE would be, buying bonds would be bearish for bonds. And they looked at me like, what is wrong with you. And by the way, I was dead wrong for five weeks. And my theory was, QE, the buying of bonds by the government would cause risk to go up and therefore decrease the demand for bonds from other entities. It took about five weeks, but it worked. Then, we stopped QE and sure enough, like the day we stopped QE, another words buying a bond, since 2011 bonds went up, stocks went down.

Everybody blamed it on Boehner and Obama having a hissy fit with each other in the White House, but I have followed this for eight years, and, it was 7 for 7. When the government buys bonds, bonds go down and stocks go up. And vice versa. So, as some people in the room are on some boards I'm on, know about a year ago, I started worrying that QT was going to hit financial assets. And it did hit. Well, I won't say it hit it. The stock market started going down when we went from QE to QT, the actual global date was October 1st. So, yes, I believe in it....

SCOTT BESSENT: We are still doing it.

STANLEY F. DRUCKENMILLER: That's the other thing that's going on. We have three more months of this stuff. It's a very interesting environment to be doing quantitative tightening. And as you can tell, I'm not like some Perma-Dove.

SCOTT BESSENT: Right. On the politics...

STANLEY F. DRUCKENMILLER: Oh, this is fun. (Laughter)

SCOTT BESSENT: You and I have talked, we thought tech was the ultimate disrupter in the economy. But now we don't have a black swan, we have what I call an orange swan.

STANLEY F. DRUCKENMILLER: It's an original, by the way, and it's now traveling the industry.

SCOTT BESSENT: Did President Trump just break a fragile economy going into an election?

STANLEY F. DRUCKENMILLER: I don't know, is the answer. I remember Bernanke who doesn't have 30 IQ points, he's got like 100 on me, saying something like....

SCOTT BESSENT: Well, he's from South Carolina.

STANLEY F. DRUCKENMILLER: Saying subprime was contained. And what he didn't calculate were all of the ripple effects, and the animal spirits going to short tariff spirits. And if you just add up the tariffs we've done by themselves, it's quite debatable whether this is going to hurt the economy or not, and in fact, Peter Navarro apparently has convinced the president that it's going to help GDP accounting, because exports obviously go up relative to imports. But, there's a good chance that by hindsight, and by the way I got caught with my pants down, I didn't see him doing what he did, but I also didn't see this.

Looking back, the ISMs, factory orders, a lot of stuff was rolling over a month before we did our China thing. So my real answer is I don't know. B) it really concerns me that, yes, he may have.

SCOTT BESSENT: So, in 1992 when you started teaching me macro, my impression was, it's half politics, half economics. And then in 2002 after the .com the money spickets got opened and it was all just money. Now it seems like we're back to politics, they matter as much as money flows. How should we think about that?

STANLEY F. DRUCKENMILLER: In April, I was so bullish, I was 93% long when the guy did his thing. And I said, well, the only risk is political, but everybody knows they're not going to be stupid enough to have the trade deal blow up. (Laughter) So, I was wrong. We're in a bear market in politics. I mean, there's just no question about it. In every country across the board, you have this populism, this protectionism, and I don't care what they say, I will go to my grave, you're not going to tell me that protectionism is as good as free trade, I just don't believe it.

This weird sort of populous thing, and I'm glad you mentioned the Hamilton speech, because I think I named it, *Can We Try Capitalism*. We just seem to be moving further and further away from it. Where, the president attacks Amazon, or he attacks AT&T today because apparently CNN ticked him off. And just all of this stuff. It's not good. Does it matter? I don't know. Again, it's part of a big puzzle, but it's certainly one piece that doesn't look very good.

SCOTT BESSENT: Well, it seems like when equity risk premium is low, the VIX is low, you get political volatility coming through. So, political volatility. In 2016 you thought Trump could win, I thought he would win. Now, most of our Wall Street brethren, he's got a 9 to 1, the president is likely going to be reelected. What do you think is priced in, and how do you think the market should think about this?

STANLEY F. DRUCKENMILLER: Well, I try to avoid these top dinners. But when I go to them if I ask if presidents can be reelected, they don't say yes, they stare at me and go, of course. So, I assume the market, whatever that is, thinks he's going to get reelected. I personally think it's going to depend on the democratic candidate, but he drew an inside straight, he won 7 out of 7 states by less than half a percent. And if you go county by county in Pennsylvania, Michigan and Wisconsin, he is in deep, deep, deep trouble. And that was with the economy growing at 3%. So, I personally don't believe, unless they put up one of the two, three crazies, I can't remember how many there are, (laughter) I'm assuming he's going to get beat. I think the market assumes differently. I think if he does lose, particularly if I'm wrong and a crazy beats him, I mean, it's worth a lot of PE points. A lot.

SCOTT BESSENT: So, you think Trump, off the leash in 2021, or Comrade Sanders is worse for the market.

STANLEY F. DRUCKENMILLER: I'm going to write in for you.

SCOTT BESSENT: That would be terrible. Now, the panda in the room, China, can you frame that for us a little?

STANLEY F. DRUCKENMILLER: Yeah. I think those who believe a conflict between the United States and China is inevitable and apparently most people believe that. Obviously, if you're from the United States and you believe that, you want the conflict now. There's a billion four people, they're catching us, and probably a good chance pass us at some point technologically. We have no chance against China if there's a conflict in 30 years.

If you're China....

SCOTT BESSENT: Wait, an economic conflict, or a kinetic conflict, or both?

STANLEY F. DRUCKENMILLER: Either. Either military or economic. If you're China, I think, if you think there is going to be a conflict, you have the same view. Don't know whether we can win now, we're definitely winning if it happens in 30 years. So, I think this is probably the genesis of this on the very immediate term. As I said I did not expect the lovely tweet that interrupted my golf game on Sunday afternoon about a month ago. But having said that, and seeing the situation from then, my impression is that at this moment in time – which is the only thing you can ever say about Trump, at this moment in time – he does not want an extra $325 billion in tariffs, he doesn't see any marginal gain from that. But, he does want tariffs on when the election happens. He wants to run on tariffs. He thinks they are a winning formula in the swing states, and the belligerent sort of verbose pressure he's putting, and the braggadocio toured China, he's giving Xi Jinping, no off ramp to make a deal.

It's funny because two, three weeks ago, I thought I was here, and the market was here, on the prospects of a deal, this being deal, this being no deal, and I think the market is kind of here now and I'm here. So, I'm not that far, I'm not that much more negative than what's priced than the market itself. But my working assumption is with the economy here. I would have told you a week ago and the S&P here, there's no chance of a deal. But, my guess is the economy is not going to be here, in November of '20, and I don't know where the S&P is going to be, but I think those will factor into it. It's bad, and the Huawei thing is real.

SCOTT BESSENT: So when we were talking yesterday, you said you thought, if we get the decline in the S&P and the Mexican tariffs were bad for the U.S. negotiating position...

STANLEY F. DRUCKENMILLER: Yeah, they are terrible. I mean, Xi Jinping has got to be doing cartwheels, because Lee Ho comes back, he's a reformer, he thought the deal was actually in China's interest because it undermines the SOE and does a lot of other reforms. The old guard in the Politburo and in my opinion, Xi Jinping, did not feel that way. It came back, it was pretty obvious that Lighthouse had taken Lee Ho's pants down in the negotiation when the Politburo saw it. And Xi Jinping thought that was the end of that. But there was still some fight. Can you imagine trying to defend the deal if you're Lee Ho this week after...I mean, okay, there's a problem at the border but economically and after Mexico did everything we asked, it did everything right, and this is how the guy behaves if you make a deal on him. So, to me, Xi Jinping and the hardliners just got a very, very big gift from Donald Trump doing what he did to Mexico.

SCOTT BESSENT: So, you're not a nationalist, you're not a monopolist, but today the justice department opened an investigation into Amazon/Google and Apple and it seems like the opposite of what China is doing with Huawei in terms of defend, protect....

STANLEY F. DRUCKENMILLER: So, this is amazing to me. I'm not a nationalist. I don't even know about this economic war, but if you are going to have an economic war with China and you're looking ahead, okay, where do you fight the war. To me, you fight it with AI, you go where the future is going. So, the minute this trade stuff started happening last fall, they started easing up on their private sector, particularly Tencent, Alibaba, they are huge supporters of Huawei, they're oiling their whole high-tech machine, all of their engineers, what are we doing? Oh, we're saving steel, coal, aluminum, really the future here guys. And what are we doing with our leading tech companies. We're throwing sand in the gears and making their life miserable. By the way, if I hear one more clown on TV telling me that Google is anti-innovation, by the way I do not own Google, come on. Look at the products we're using from that company and the reason the stock is not higher is because they're spending a fortune trying to do more new stuff. And by the way, this thing about it harming consumer, because all of the products are free, (laughter) I'm really on the other side of this thing about, and I am not a nationalist, but if we're going to be in some kind of conflict, it's going to be fought among the big tech companies, not our aluminum/ steel companies. We're going to get rolled.

SCOTT BESSENT: It's amazing that the general narrative is that President Xi can't stand the Chairman of Huawei, Ren Zhengfei and obviously, Jeff Bezos isn't the president's favorite person.

STANLEY F. DRUCKENMILLER: Well they were not happy with each other. But, it's their champion, and he's their champion, and now they're partners. Whereas you're right, the president, not real fond of Mr. Bezos and we're getting the gong. Or you are, not me.

SCOTT BESSENT: We're going to move into the next phase of our conversation, by the way, guys that was terrific, thank you, and have questions from the audience. I have a very large type here that says, do not call on the media in the back row. So, if you won't raise your hands, I won't be rude to you by not calling on you. Lynn do you want to start off. Take a microphone and introduce yourself.

QUESTION: You talked about how there are signs for caution, that the economy may have peaked. What would be a defensive investment posture now?

STANLEY F. DRUCKENMILLER: Well, a week ago I would have told you treasuries.

(Laughter)

SCOTT BESSENT: You know you had the great saying with your golf pro two weeks ago that you told me about.

STANLEY F. DRUCKENMILLER: Yeah, we were in a board meeting together and some of you have probably played this golf course, The National and we had this old pro there and whenever it was blowing really hard, there would be white caps on the bay, and he said, when there are white caps on the bay, the pro don't play. And when the Trump tweet went out, I went from 93% invested to net flat, and bought a bunch of treasuries. Not because I'm trying to make money, I just...I don't want to play in this environment. There are going to be better environments to take a shot. I think if you're confident in your long-term view and your ability to make money, this is not a great environment to be going to bet the ranch on one way or the other. Not short, not long.

In terms of the economy though, if you believe that, the obvious posture would be treasures. I actually own a lot of treasuries and when I bought them, I wasn't sure rates were going to go down, what I was sure, is they weren't going to go up. And I thought they were a one-way bet. But, with the two year at 184, you have 75 basis points of carrying that thing right now. That's the way the roll goes. It's a two-way bet, so they're becoming less interesting. If you believe the economy is going to deteriorate, they're the best game in town. Gold is not bad either.

GLEN HUTCHINS: Other questions. Someone else here. In the back row there, the gentlemen, and then we'll come over here.

QUESTION: Thanks so much Stan. Warren Buffet has called bit coin rat poison squared. On the other side you have folks like Peter Thiel, who I think most people in this audience would agree, have done a better job at being ahead of the curve in predicting disruptive technologies. Could you share your thoughts with us about bit coin? It probably is one of the few asset classes in the world that has done a better job rallying over the past few months than treasuries.

STANLEY F. DRUCKENMILLER: I look at bit coin as a solution in search of a problem. I don't understand why we need this thing. The great thing they are out there talking about is a stable crypto currency. Well to me, that's called the dollar. Now, if we keep weaponizing tariffs and sanctions and everything else we are doing, maybe five or ten years down the road, but the pro don't play, I just don't need to be playing in bit coin. I wouldn't be short it; I wouldn't be long it. I don't think I'm a Neanderthal, which is what I've been called when I said I didn't want to own bit coin. They keep telling me it's going to be a store of value like gold. Maybe. I mean, it could go to a million, but I don't understand why it's a store of value, other than you can't create it. Well there's a lot of things you can't create, that aren't going to go to a million.

GLEN HUTCHINS: Other questions, back here.

QUESTION: Two quick questions, Stan.

GLEN HUTCHINS: Just one please.

QUESTION: One, when you went through your political analysis, you seemed to imply that the crazies are worse than the president. Are there any so-called enlightened democrats and could one of those guys actually win? That's the first question. I have one short follow-up.

STANLEY F. DRUCKENMILLER: I didn't mean to imply that they are worse than the president. If I'd vote for Scott, think how bad they both are. (Laughter) That is just such a horrible choice. I'm a big proponent of free markets and both of them seem to me to be taking away from free-market capitalism. Obviously if you're investing in stocks, you're going to like Trump better than the crazies, despite all of the interventions he does.

I'm just depressed about both sides of the coin. I will say that one thing that really annoys me is, and I'm not a hater, well sort of. (Laughter) Is his narrative, well the policies are great. Well first of all, there's more than policies to the job of the president of the United States. There's a dignity of the office, there's a role model you're setting for the rest of the country. There's leadership, and to me, that's an important part of being president.

But, by the way, I don't know how great the policies are. There's a lot of crony capitalism and stuff going on. Nobody has been more for tax reform than me. And then when you looked at that thing, my God, the stuff that was in there. You can buy a used jet now, and write the whole thing off in the first year. It's bad enough that I'm going to buy a new one, and I can write all of that off, and I can see how that causes production. But how does a used jet, why do you get to write that off, I'm not so sure. I would vote for you enthusiastically, Scott. My 9-year-old is here.

QUESTION: There are three ways to get rid of the president; impeachment, the 25th amendment, or the ballot box, which way do you think it will be?

STANLEY F. DRUCKENMILLER: Oh, at this point in time you'd be crazy to do anything but the ballot box. It would take a year and a half to impeach him. The country would go through hell. It doesn't make any sense.

GLENN HUTCHINS: Questions over here in the back on the right-hand side.

QUESTION: Thanks Stan. I'm ___ an asset manager. You spoke of markets from the issuer side and I wonder from the buyer side of markets, financial institutions or groups of people, what worries you?

STANLEY F. DRUCKENMILLER: What worries me as a buyer or about the buyers?

QUESTION: No, about the buyers. Where are the problems as you see them?

STANLEY F. DRUCKENMILLER: Well, I think we've all been forced, per my first rant, we've all been forced to weigh out the risk curve and we own a bunch of assets that we don't necessarily believe in, but I don't know whether Jason is here, but that TINA thing, there is an alternative. But that's a hell of a reason not to own an asset. But we're all guilty of it. So, yes. That is what worries me the most is that we own a bunch of assets and by the way, there's derivative positions out there too that ultimately they're probably in weak hands.

GLENN HUTCHINS: That's foreboding. Over here. We will go to this side next, so be ready.

QUESTION: Does China have to lose in order for America to win? Is this a duality that we have to deal with? Or is there another way to go about it?

STANLEY F. DRUCKENMILLER: Does China have to...

QUESTION: To lose, in order for America to gain. Because the way we are going it's just animosity between the two nations.

STANLEY F. DRUCKENMILLER: With these two leaders, I think the answer is yes. I think with a different two leaders, absolutely not. I think this didn't have to happen, but with a leader for life who put out the 2025 scenario, and Trump, and now frankly, I will say one thing, Trump has really moved the needle in a bipartisan consensus in this country that is really astonishing. I mean, China has no friends on the democratic side or the republican side that I can find right now. So, I think the answer to your question two years ago was absolutely, they don't have to lose. Right now, I'm kind of worried that the answer to your question is yes. Given the players, and the entities we have. My partner Kevin Warsh, who I think the world of, he thinks Donald Trump will be the most pro-China president in the next 30 years. He thinks that's what kind of cold war we're heading into.

QUESTION: Giving you focus a lot on liquidity, I was wondering what you thought of the present liquidity conditions in the market?

STANLEY F. DRUCKENMILLER: Not like the old days. They are tough. S&P are not as liquid as they were 10 or 15 years ago. Treasuries, there are days when they are not liquid. I'd say it's spotty. You get these vol and these algo episodes and if you're on the wrong side of it, there's no liquidity. If you're on the other side of it, there's tremendous liquidity. But liquidity is a moving animal. It's things can be very liquid and then three weeks later there can be no liquidity whatsoever. I don't know if I answered your question.

QUESTION: Giving your assessment of where China and the U.S. are and the characteristics of the two presidents here, for a U.S. global investor, is there any China play short and long-term? If so, in what form?

STANLEY F. DRUCKENMILLER: I mean, maybe I'm an idiot but I own Alibaba and Tencent, and I own some private growth companies. My portfolio has basically been long disrupters and short disrupted for like three or four years now. Those companies to me, their growth rates I see are not going to be that messed up by us. They can do a lot of domestic growth there. I mean, Ping An the insurance company, I don't see how tariffs are going to kill that. So, there's a lot of names I own in China and frankly if they want to pull levers and as you know, I'm not a real long-term guy, if they decide to pull levers, they can make that place go for 18 to 24 months, probably have more ability to do that than we do here. We are kind of like hand-cuffed.

QUESTION: Stan, I'm curious to hear your prognosis for the evolution of the hedge fund industry, given of what seems to be a rising trend of titans like yourselves, converting to family office.

STANLEY F. DRUCKENMILLER: Do I see more of that, or my view of the hedge fund in general?

QUESTION: The hedge fund industry in general and how it's likely to evolve.

STANLEY F. DRUCKENMILLER: Well the hedge fund industry to me had like eight to ten savant superstars in the 70s and 80s. And they charged Rolls Royce prices and they were expected to make 25% a year. And those eight to ten guys did. And then they got 9,000 imitators who charged the same prices as those eight to ten guys. What are we down to now? Do you know Scott? I don't even know. Probably 4,000.

SCOTT BESSANT: Hopefully.

STANLEY F. DRUCKENMILLER: I think the fees are still too high. We're still going to shrink. But there's probably five to ten people out there, women and men who are worth more than the fees right now. So there are still going to be superstars but we need to get back to like, maybe 200 or 300 from 4,000.

GLENN HUTCHINS: And if you make a large donation to the Club, Stan will tell you who they are. (Laughter)

QUESTION: Hi Rick Sink. You talked about this not being a great environment for long or short. But you talked about the internals in the market being positioned defensively versus not. You talked about it being hard for China and not to be able to make a deal. And you also said that if a democratic president is elected that would be a couple of points on the p multiple.

STANLEY F. DRUCKENMILLER: No, only if one of the crazies is. I would say Sanders or Warren, maybe 30%. I think it would be as big as Reagan the other way.

QUESTION: Okay. But with the market not that far off its highs, I wonder why you think its not a good environment on either side? Particularly a downside given that fact set.

STANLEY F. DRUCKENMILLER: Well, first of all, I'm sure it is a good environment, either short or long. I just don't know what it is. So, I'm talking about myself...(Laughter) myself as a practitioner, the disciplines I've used over the years. I like to make very large bets, very contrary to when the ducks are lined up and I can analyze it. If you can analyze Donald Trump, more power to you. I've been more wrong...

It's a swan not a duck.

STANLEY F. DRUCKENMILLER: The swan. I've been more wrong-footed by this guy and shame on me. What I have done and it has worked. It sure as hell didn't work today, but it's worked, is I've been long a lot of these secular growth companies that I think can do spectacularly well in a 1% nominal growth environment. And we know who they are. The cloud companies particularly the little ones, the SAS companies, that kind of stuff. And I've been short the disrupted stuff. The biggest problem for me is I made 70% of my money when I was competing in bonds and currencies. And the central banks have really, I can't make 30% a year anymore. And I don't even charge fees now. So, it's a depressing environment.

GLENN HUTCHINS: One last question here. The young man back there.

QUESTION: Hi Stan. Do you think that in a prolonged downturn the Fed would consider using negative rates and what would that imply for the U.S.?

STANLEY F. DRUCKENMILLER: Oh yeah, they're going to do the works. I mean, these guys...I did a Bloomberg interview, am I allowed to say that, the day before the Fed meeting, and I said, one of the reasons I didn't want them to raise rates, because if they did, I thought we would have a meltdown and it would lead them to get really crazy. Stuff that I thought was brilliant in 2009 and should be used once every 50 years, is now sort of being discussed as part of the toolkit even for a recession. I don't know if they're going to do negative rates, but one of the reasons I own the two years is I could easily see them going to zero in the next year and a half, easily.

If I had their criteria and set out what they have laid out, their metrics, I would say the odds are very high that they're going to cut 50 to 100 basis points in the next year. I'm not saying I would, but I'm not in charge, thank God. But yes, I think you're going to see, if this thing ends up being a mis-allocation of resources-led problem for demand down the road, everything I see out of central banks globally is radical policies ahead and an attempt to fight the thing.

GLENN HUTCHINS: Okay. So, before we close the night I have a couple of quick announcements. The three of us aren't allowed off the stage by Barbara Van Allen until I get through these quickly. The first and most important probably is the bar is still open and the food is still available, across. We've paid for it until 7:30, so please come across and have a cocktail afterwards. Tomorrow, we have Brian Moynihan, CEO of Bank of America at lunch. On June 19, David Petraeus, it says here former CIA Director. I do remember he had a military career of some note as well. June 24 a former Economic Club board member, I think, certainly member, David Malpass from the World Bank Group. Gentlemen, thank you very much for an enlightening and interesting exercise. (Applause).