The Economic Club of New York

113th Year
554th Meeting

Ray Dalio
Founder, Co-Chairman and CO-CIO
Bridgewater Associates

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Webinar

Moderator: Susie Gharib
Anchor, Special Correspondent
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Introduction

President Barbara Van Allen

Welcome everyone. We will get started in exactly two minutes.

Again, welcome and thank you for joining us this afternoon for the 554th meeting of The Economic Club of New York in our 113th year. I'm Barbara Van Allen, President of The Economic Club of New York. With a distinguished history since 1907, The Economic Club of New York is the premier forum for discussion on a wide range of issues facing New York City, the nation, and the world. Our mission, we believe, is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation. We proudly stand with all communities seeking inclusion and mutual understanding.

I would like to take a moment to recognize those of our 312 members of the Centennial Society attending today as their contributions continue to be the financial backbone of support for our special club. They enable us to offer our wonderful diverse programming now and into the future.

For our efforts in connecting with and encouraging the next generation of business leaders, we welcome members of the ECNY 2020 Class of Fellows, which now number 45, as well as graduate students from the Leonard Stern School of Business at NYU, the CUNY Graduate Center, and Stony Brook University.

It is a special honor for me to introduce our guest today, Ray Dalio. Ray is the Founder, Co-Chief Investment Officer and Co-Chairman of Bridgewater Associates, a global macroeconomic investment management firm and the largest hedge fund in the world. He started Bridgewater out of his two-bedroom apartment in New York in 1975 and under his guidance, has grown the firm into the fifth most important company in the United States according to *Fortune* magazine, and has led it to make more money for clients than any other hedge fund since its inception according to multiple sources.

Ray has been a global macro investor for more than 50 years, which has required him to gain a deep understanding of global economics and investing. Under his guidance, Bridgewater has introduced several industry-changing approaches to investing, including risk parity, the separation of alpha and beta, and currency overlay strategies. For his innovative work as well as being a valued advisor to many global policy makers, Ray has been called the "Steve Jobs of Investing" by *CIO* magazine and *Wired* magazine and has been named one of *TIME* magazine's 100 Most Influential People. Ray is also an acclaimed author, having made his literary debut in 2017 with *New York Time's* #1 Bestseller *Principles: Life & Work*, which outlines his principles for work and life.

Perhaps most importantly, Ray is a professional capitalist who believes that capitalism needs to be reformed in an intelligent and bipartisan manner. His reasons for holding this view are laid out in his work, “Why and How Capitalism Needs to be Reformed” which is available on LinkedIn, including on The Economic Club of New York’s LinkedIn site.

He’s an active philanthropist with a special interest in ocean exploration, micro-finance, and equal education opportunities for underprivileged youth.

Switching to the format today, it will be a conversation. And we’re so fortunate to have Economic Club of New York former board member and active member, Susie Gharib, doing the honors. Susie is an award-winning journalist and anchor and Senior Special Correspondent for *Fortune*. We will end promptly at 2:45 and any questions that were sent to the Club from members in advance were shared with Susie. As a reminder, this conversation is on the record and we do have quite a bit of media covering the event. I’ll turn it over now to the two of you. Thank you.

Conversation with Ray Dalio

SUSIE GHARIB: Thank you so much, Barbara. Ray, thank you so much for joining us. You know everyone who is in the audience is very eager to hear your views on the markets, the economy, and of course, the pandemic. But before we get to that, you told me recently that when you're making an investment decision, you always rely on history. And actually right now you've been looking back across 500 years of history, which is amazing, and trying to connect the pieces of the past to better understand what they mean for the future. And you're going to put this all together in a new book that you're working on called, *The Changing World Order.* So tell us what are the key takeaways of the past and why are they so important for investors and business leaders to pay attention to today?

RAY DALIO: Well, thank you for having me and I'm particularly loving to be with this audience because they're interested in the same mechanics and markets. So anyway, what I learned over my roughly 50 years was that most of the biggest surprises that hit me were things that didn't happen in my lifetime but happened many times before.

I was clerking on the floor of the New York Stock Exchange when in August 15, 1971, Nixon devalued, I thought it was going to be a crisis. I'd never experienced a devaluation. And the stock market went up a lot, it surprised me. And I found out that on March 5, Roosevelt did the same thing. And so I learned that many things happen over and over again, but maybe not in our own lifetimes, and in order to understand those – so, like the 2008 Financial Crisis we were able to anticipate, do well, because we studied The Great Depression. So that's why history is important to me.

What emerged over the last number of years were three big factors that hadn't happened in my lifetime before but did happen. And so those three big forces are where debt and monetary policy are. So I think of monetary policy – let's start with monetary policy – I think of it as Monetary Policy 1, 2 and 3. Monetary Policy 1 is interest rates. Number two, when you hit zero interest rates, that doesn't work anymore, pretty much. And then you go to Monetary Policy 2. Monetary Policy 2 is the central bank expands its balance sheet, buys, and we'd have quantitative easing. And when that ceases to work as effectively in distributing the money and credit the way that we would like to have it, you go to Monetary Policy 3. So there's a cycle. The last time, by the way, that happened was 1933. Interest rates hit zero, a big expansion of deficits, big monetization, and so on. And so there's a long-term debt cycle that is a factor, so that's number one.

Number two is the gaps, as I call them, the wealth gap, and with that wealth gap, a values gap that creates greater political polarity and with that greater political polarity comes greater economic socialists versus capitalists, that type of conflict, which then becomes manifest in policies such as corporate tax cuts. And if you have corporate tax cuts and policies that are good for capitalism, it causes the markets to go up. And so I have to think, as we all have to think as we go into the new election, what will those changes in policies will be. Will they be re-distributive and so on? And those are the things that have happened through history so we can see that pattern. But those gaps did not exist – the wealth gap, the political gap, and so on – you have to go back to the 1930s to find that.

And then the third force is the rise of a great power to challenge an existing power, the rise of China to challenge the United States in a conflict. We began the New World Order in 1945, you know, end of World War II, new rules, new monetary system, new rules and so on, and that order has carried us to now. So when I think of economics and markets, I must think about, on that China, what does decoupling look like? What does it mean for technologies? So under each one of those three things, those three big topics, those will be with us for the next many years and how they transpire will be particularly important.

Then we had the pandemic, we had Covid, and that produced a downturn and so on. That will pass in its own way and we can conjecture. But those other three forces will be with us. So I needed to study those, not just the last time they happened, like in the 1930-'45 period, which I think was analogous, but to go back to all of the cases over the last five years. It's available if you want to read it – as I'm writing the chapters – it's available on LinkedIn. You can read it there. But that's my frame of reference. So those three things and then you have Covid.

SUSIE GHARIB: All right, well, let's go over what the impact of that is. So you've given us a look at the past, but what's the message or the risk that you want to make investors and business leaders aware of? And also what is this changing world order that you're looking to in the future, what is it going to look like? Describe it for us.

RAY DALIO: Well, the most important thing I'd love to do with each of the members of your group would be to agree on the mechanics because if we agree on the mechanics then everything falls out. So what we had on April 9th was essentially a move that was the equivalent of the move that we had in a major – it was when Mario Draghi made the move, it was others, and it was the same move as August 15, 1971, a similar move – which was the creation of a lot of government debt and money and that then had implications for driving real interest rates down over 100 basis points. And so we changed the discount rate. We created the all assets trade at the present value of estimated future cash flows. And so we changed the discount rate by, let's say 150 basis points roughly.

We added liquidity. The purchase programs of the Federal Reserve and other central banks and other governments around the world brought that liquidity into the world and that was the major factor, one of the major but the most important factor in causing asset prices to rise now. And we're dealing today with classically the value of money and monetary policy as we might go forward.

And I think we're dealing with that in a way where the creation of money and credit, and particularly dollars, because we're in a dollar reserve currency, puts into question the supply-demand picture for dollars and dollar-denominated debt. And so we should explore that. I mean that's an important thing. Because let's say as we go forward and you take programs that might be proposed, a lot of that will – besides the tax cuts or the tax changes and so on – a lot of that will have to be funded by further expansions – let's call it expansions in the balance sheet – the expansion of deficits and the monetization of deficits around the world. And that will have implications on the value of money and the value of assets. So I hope we can explore that.

But I would say one of the things to watch out for is the storehold of wealth question. And what I mean, the storehold of wealth question, I mean that traditionally bonds is the backbone of the capital system and the credit system. And bonds are a promise to receive currency. And central banks have a lot of ability to print currency and they're giving very low real returns. That changes the nature of capital flows and I think it'll be very interesting in what are the storeholds of wealth and how might the reserve currency situation change. That's number one.

Regarding issue number two, let's say the conflict between, let's say the left and the right and the politics, I think it's very important that that go engineered in a way that is as much as possible bipartisan, that brings people together, but also engineered in a smart way so that abrupt moves or certain changes don't have second or third order consequences that could change the capital markets. For example, if you do the taxes maybe the wrong way, it causes capital flows and it can cause price movements that have knock-on effects.

So, on that second, we're going to enter a time where we're going to think who pays the bills? And I think it'll be very similar probably to a transformative experience like the 30s.
SUSIE GHARIB: Let me jump in there because you've given us a lot to think about. But I'd like your view, your conclusion as you've studied all of these important trends, is that what concerns you? What's the biggest risk right now from all of these intersecting trends that you mentioned?

RAY DALIO: Well, the biggest risk is how we are with each other. There's enough money to go around and there's enough expertise and I think, you know, I have sort of a principle, when the cause you're behind is more important than the system to resolve your disputes, the system is in jeopardy. And so I think that all of these are managed, but everybody has all these opinions and they're all fighting so much. And that's not only internal, that's external.

And if you think of the consequences of that, of not being smart and not being inclusive so that we can get back to rowing in the same direction and making the structural improvements to improve our productivity, to make sure when we raise productivity, we increase the size of the pie and that we divide it well. So in order to both increase the size of the pie and divide it well, we have to have a bipartisan and highly skilled engineering to bring that about. That's my...all of these problems are big – big enough that they could cause wars. It can cause revolutions. It can cause conflicts. But it's how we are with each other will be the most important issue.

SUSIE GHARIB: Let me bring in the pandemic because you mentioned it in passing. And I recall that at the time when we first all learned about Covid-19 and we were trying to figure out its impact on our lives and economy and everything, you said that it's a big one-time shock. And your prediction was that in a year or two we won't even be talking about it anymore. Do you still feel that way? How critical is this pandemic on all of the other issues that we're grappling with right now?

RAY DALIO: Well, first of all, I'm no expert on pandemics. I didn't properly prepare myself for the pandemic. And now I'm thinking about pandemics in a much broader category because they're in the same category of things that have happened many times before in my lifetime and they took me by surprise, like the big storm.

What I do believe is probably pretty much consistent with the capacity to adapt, to find vaccines, and to be able to deal with those things over a particular time will be increasingly dealt with although the history of sometimes pandemics go on for a longer period of time. I think it becomes the big event of our time. It was the shock. And history has shown, whether it's pandemics, it could be acts of nature like storms, droughts, floods, those kinds of things become the stress tester. And then how you are in your financial health as well as other health, like how you work together is of paramount importance. So what you see is that the economic consequences of that have big impacts on income statements and balance sheets.

And so it's like a tsunami comes in and then it recedes and then you're still left with that particular damage and that is what the handling of that is. I think it was well-handled, necessarily handled, but we're in – I mean meaning when I say it was well-handled, I'm not commenting on the handling of the pandemic, I'm commenting on the financial necessity to get money in the hands of those people and to do that printing. But it is that stress test.

And so that's why I think that it will gradually recede but we're going to be left with the other problems and we're going to have stress tests. And the stress tests are not only us financially – although those with better income statements and better balance sheets get through it better – but also stress tests of how we are with each other, whether we can be harmonious, whether we can pull together and work on common objectives. And

I don't think we're doing so great on that stress test.

SUSIE GHARIB: All right, we'll come back to that a little later, but let me just stay with this whole thing about the pandemic. It will end at some point. At some point there will be a vaccine and we will move ahead. When that point comes – and from your knowledge of studying economic and business cycles – what is the economy going to look like? Are we going to have a growth spurt because companies will really be open for business? Could we have a recession? Could we have a depression? What do you think about all that?

RAY DALIO: Well, again, I think it's, you know, it's a non-cyclical, non-normal cyclical contraction and so as it recedes – and I don't know if it will ever be totally gone away, I'm not saying vaccines will make it totally disappear – but I think technology and other things will make it managed so economically it will be less – then we're still going to face the three things that I'm referring to. And so how do you pay the bills? How do we do it? Are we going to be at each other's throats? And what do the five wars, the conflicts with China, look like and the geopolitical situation, how does that look?

SUSIE GHARIB: But what kind of economy do you think we're going to be dealing with? Is it going to be like just a severe downturn or are we going to bounce back?

RAY DALIO: I think it's probably going to look more like the 1930-'45 period in which, again, I don't know who will win the election, but I would say most likely what you're going to have is an increase in spending, about half of which will probably be – depending on the candidate – will be funded by taxes, but it will vary by the candidate, and a lot of which will be through the production of money and credit. And that will result in us having to sell a lot of bonds to the world. Americans will not have the capacity to buy all the bonds that will have to be sold. And as a result of that, if you look at the balance sheets and income statements of those who are holding bonds around the world, they are overweighed in bonds. And as a result, then the Federal Reserve is probably going to have to come in and monetize.

So I think that the nature of the environment, it all depends on a lot of things, how does the election go and these other things. But I think in either case you're going to see more creation of debt, more monetization, and more risks for the dollar. But I'm emphasizing also a U.S. perspective. There's a European perspective. There's a Japanese perspective. There's a Chinese perspective. I'm a global investor so I'm in all those countries. And so if I was to give, these issues are particularly, there are some that are European.

Let's say world reserve currencies, if you take the world's reserve currencies which is the United States, the euro, and Japan, it's like the G7 in that they have a particular set of challenges. But in a nutshell, I would think that'll be the main issue in terms of the storehold of wealth and the changing nature. And it depends how the conflicts go. I think that there'll be greater conflicts. I'm worried that there could be greater conflicts and that they will play a greater role.

SUSIE GHARIB: Okay. I want to turn to the markets, but first I want to give you two quick questions and maybe you can give us two quick answers to some questions that came from Economic Club members. The first one was what's your opinion on how we end a decade of stimulus? And you've been talking a lot about that in your other comments, but what would be your answer to that?

RAY DALIO: Well, the only way that, I mean history has shown that when you, you don't end the stimulus because they're hooked on it. And so the idea of let's say the costs of balancing a budget means it's politically impossible because it's either you get more taxes or you spend less whereas the way it's always dealt with through history is the production of money and credit because nobody complains about that. So I think it's clear that we are, you know, in that later stage and just like, as I say, March 5, 1933 and August 15, 1971, there's going to be the greater creation of money and credit and monetization because politically and for all of those reasons that is the best path. That'll happen.

SUSIE GHARIB: The other question from the audience also, kind of related, what's the risk of inflation getting out of control? And I would just add to that, how long do you think the Federal Reserve can tolerate inflation above 2%?

RAY DALIO: First of all, there's inflation – I just want to be clear – there's inflation of financial assets and there's inflation of goods and services. And that the first inflation that happens, very much like March 1933, Roosevelt devalues, the stock market goes up, the economy goes up, gold goes up, the dollar goes down and you have that financial assets. And then with the lag, you have economic activity, and then with the lag, you have inflation. The inflation to worry about isn't to me the classic as much supply-demand inflation. In other words, inflation can come from monetary inflation or it can come from you're out of capacity to produce and demand is too high and then you have inflation.

I think that the sequence that we're experiencing is the alternative storehold of wealth inflation – stocks, gold, and all of those assets – that will produce then a higher level of some element of monetary inflation. Watch the dollar, watch that to see, because all monetary inflations first happen through the movement of money to alternatives. And very important, let's say the mechanics, when you think about the real high inflation – monetary inflation – like the Weimar Republic in 1923 and so on, what you see is that money leaves those assets.

So, for example, money could leave U.S. bonds and then that produces a dynamic which is very similar to a currency defense. And mechanistically the way it works is money leaves that, that would raise interest rates. But raising interest rates is not tolerable because it would sink financial assets and it would sink the economy. And because that void is created like a currency defense, there's a need for the central bank to fill in that void and buy those financial assets which causes that to spiral. That would be the one that would worry me.

Regarding a shortage of supply-demand, excuse me, a shortage of capacity relative to goods and services, the non-monetary type, I'm not particularly worried about that. I think you can always curtail that. And what the heck, if I lived in a world that had 2 ½ or 3% inflation, that doesn't scare the daylights out of me. I've lived in there. I mean that's not the big thing in terms of the real problem.

SUSIE GHARIB: I'm going to switch and talk about the markets. And the time is going by, it's fascinating to hear all of your views, but I know the audience wants to know how you and your Bridgewater colleagues are responding to the recent market selloffs and the market rallies. What is your investment strategy right now?

RAY DALIO: Well, again, I'm not going to talk about our particular positions because I don't, I don't do that, for various reasons. They're private.

SUSIE GHARIB: But what's your investment approach? What's your investment thesis?

RAY DALIO: Well, I think I would say you have to know where you are in the cycle. And so along those lines, we have been, started on April 9th until now, we have been in a reflationary environment in which cash is very unappealing relative to other assets and

it's better to be short or borrow cash than it is to do other things. And that the most important thing for me right now, and it was at the time, is diversification, global diversification. So we can think about diversification as existing – country diversification, asset class diversification, and currency diversification. And so when I'm looking at that portfolio, that becomes of paramount importance. And that also, by the way, has to do with the, you know, this China issue.

SUSIE GHARIB: All right, so what would you say, and I know you don't want to name names and that's fine, but where do you see the value? Where do you see the opportunities at this point in time?

RAY DALIO: I think, again, I'm going to be very unspecific, I think that if you take cash and you take other assets and then you look at, globally, those countries which have balance sheets and income statements that are strong and they are not very much in the crosshairs of the U.S.-China conflict, and you think, well, today it costs me almost zero – money is free, almost – and so if there's anything, where do I get returns that are better than zero in places that are still largely healthy and immune from some of those conflicts. Those are places that we would consider to be more attractive. And then there's China, very interesting because of the dynamic. I think there has to be some diversification into China too.

SUSIE GHARIB: Okay, and I'm going to ask you a question that is very much in the headlines right now that's very specific about technology, big tech companies. We've seen, I'm not going to mention the names but we've seen big selloffs and now, you know, some of them coming back. What's your view on big tech investing? Is it time to rotate out of them or is it time to jump in?

RAY DALIO: Again, I'm going to answer in my vague way because it's portfolios and also my hope with the group here was that we would talk about the mechanics. What's happened in tech, technology, there was the change in the discount rate and then there was the immunity to the virus, but it changed the multiples. And what it's done is to produce a lot of speculation. And so we have attracted in, the markets have attracted in a lot of retail buyers that have, buying on options and so on. And then when one looks at the pricing of those assets and then calculates what the expected returns would be, estimating what the future cash flows are in the present values, those assets have become rather expensive. So that's a general, that's all I'm going to say on that. But again I think we should talk a little bit probably about China.

SUSIE GHARIB: All right, well, tell me about China. What is your, especially in the view of a changing world order, where does China fit in to your view on that? And as an investor, how much are you finding investment opportunities from a stock point of view in China?

RAY DALIO: China is an effective competitor. And that effective competitor meaning in technologies, in many ways, geopolitically. There are four and possibly five, we can call them wars or conflicts, that exist between China and the United States. They are a trade war, a technology war, a geopolitical war, could be a capital war, and we hope not, but there could be a military war too. All of those are the range of possibilities. And if you look back in history, one almost needs some element of diversification.

So then if you look at the development of the capital markets, the currencies and so on, really quite attractive. I've been going to China for 36 years and I've come to know it very well and so on. And when I first went there in 1984, I would give leaders $10 calculators and they thought they were miracle devices. That was 36 years ago. And now in terms of technology, in all the areas they're competitors, they're going ahead and so on.

There is a development of capital markets and capitalism there in terms of forming billionaires and IPOs. And then it's developing really the second largest and competitive markets, opening up to foreigners, greater liquidity and so on. So I believe one must be there in light of also the issue of the associated risks. And their capital markets are actually very attractive because when you look at the pricing of capital markets and I referred to the three monetary policies, Monetary Policy 1 is you can't use, you use interest rates. Monetary policy, if you can't use interest rates, you do quantitative easing. Monetary Policy 3 is that you have a coordination between fiscal and monetary policy and you monetize that.

They're still in Monetary Policy 1 so their capacity to lower interest rates exists. There's a coordination between monetary policy and fiscal policy that I think is very good and effective in terms of managing that particular economy and so on. And so the Chinese capital markets I find to be a very effective alternative. I think that the world is underweighted in those. If you don't have a big conflict and you don't have some disruptive kind of war thing going on, the world's market capitalization of investing is very overweight in the United States and very underweight in China on a relative basis – its share of the MSCI and so on. And I think for various fundamental reasons that's going to change and capital market flows will move in a way that are going to be beneficial to China. But, of course, that's happening in an environment where we can also have an emerging capital war.

SUSIE GHARIB: That's fascinating. I want to move from China back here to the U.S., Ray, just as we wrap up our conversation. And I want to, it's 53 more days until Election Day, you've been talking slightly here and there about the presidential candidates. You wrote an Op-Ed titled "What I Want in a President." But that was back in February. Now that we know who the two candidates are, tell us what do you want in a president?

RAY DALIO: Well, above all else what I want in a president were those same things that I mentioned then, which is somebody who is going to bring the country together and to engineer in a smart way the increases in productivity that increase the size of the pie and divide it well so that we become increasingly productive in a smart way and we're operating more cohesively.

SUSIE GHARIB: And who do you think will deliver best on that?

RAY DALIO: I'm not, I'm not political, I'm like a doctor, you know, I'm not going to answer your question. I don't have any, you know...

SUSIE GHARIB: Well, you've been talking about the risks to the economy and the risks to productivity and all of that. I mean will those good things that you want to happen, happen irrespective of who is in the White House? Or will one of these candidates be better than the other?

RAY DALIO: Well, I think that there's increasing the size of the pie, which capitalists generally tend to do somewhat better than what's called the socialists, let's say. And then there's dividing the pie, which I think maybe socialists do better. You have to increase productivity so you have to increase the size of the pie and divide it well. And so when I look at that, you know, I would love a bipartisan center, build out something along those lines that is intelligently engineered so that we can be as productive as possible.

You referred to the piece I wrote before which is why and how I believe capitalism needs to be reformed and I'm saying I'm a capitalist to do this and I look at everything as a mechanic. The issue of let's say equal opportunity – which I'm a believer in, you know I was born in that environment and that's what I believe – has challenges in just a system in which the profit system is it, is all of it.

So, for example, if you make more money, then you become wealthier and you can give your kids a better education and then other kids who don't have that same benefit suffer. So in Connecticut we do, like you mentioned, philanthropic work and we're trying to get the kids who are most struggling in the most struggling school districts educated. And they don't have, we're now trying to get them computers so that they can learn offline. They don't have computers. They don't have connectivity. They're starved for that. On average, those in the top 40% of the population spends five times as much money on their children's education than those in the bottom 60%.

And so such things mechanistically, the profit system will not deal with that because schools have got to deal with budgets and budgets have to do with districts and all of those things. And those things are good leading indicators across countries of the well-being, the economic well-being and the harmony of the country. So to engineer that well so that those types of things are dealt with, the system, I think, has to be reformed in a way that improves it, not throws out an efficient system of capitalization creating motivations creating efficient allocations of resources and the like.

SUSIE GHARIB: Well, that's a subject that we could go on and on about. You've certainly given us an awful lot of things to think about and we really thank you for that. Thank you so much. It's been great talking with you, Ray. And now let me toss it back to Barbara Van Allen. Barbara...

PRESIDENT BARBARA VAN ALLEN: Thank you Susie. Thank you, Ray. A fantastic conversation. I loved learning about those mechanics that I think only Ray can provide us and thank you all for giving us your time. I'm pleased to report that we have many great speakers coming up. And as always, we encourage our members to bring guests. Some of these upcoming speakers include Larry Kudlow who will be speaking on September 17th, Lisa Cook, a Professor of Economics, former, in the Obama White

House, from Michigan State University will be joining us on September 21st, Ken Frazier on October 1st out of Merck, Henry Kissinger will be joining us on October 7th. General H.R. McMaster, October 14, the Head of the Richmond Fed, Tom Barkin, October 15, Deanna Mulligan, on our board and CEO of Guardian Life, October 26. And we have James Gorman coming from Morgan Stanley, November 12. And actually there's more and more that's coming. So please, as our calendar grows, take time to look at the website and watch out for our emails. Thank you again, Susie, Ray, fantastic conversation. We appreciate it very much. Thanks all.