



CAMELOT MACRO



**PRIVATE
BRIEFING #1**

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Camelot Macro is a global macro and grand strategy intelligence service exploring the frontiers and possibilities of free societies, economies, and financial markets. We study the past, present, and future in search of perspective-altering insights and compelling investment themes.

Members receive access to eight issues per year of our confidential intelligence briefing. Members may also receive access to additional features such as our private podcast, periodic blog posts, special alerts in the aftermath of significant macro and geopolitical surprises, invitations to special events, and other opportunities to interact with Worth Wray, Mark Hart, and Tyler Neville.

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^ Special Message From Mark Hart

The essay you're about to read is something I've been encouraging my partner Worth Wray to write for several years, outlining what he sees as a major strategic vulnerability of the United States and the larger Allied order that must be urgently corrected. This essay is also the inaugural publication of Camelot Macro, the global macro and grand strategy intelligence service I am launching with Worth and our other partner, Tyler Neville. Subscribers can expect a unique service that will take deep dives into high conviction macro themes and offer perspective-altering insights and carefully curated reading lists that will help reveal hidden truths about the world in which we live.

I first asked Worth to join me at Corriente in 2016 and subsequently made him my partner in 2018. Worth proved himself an invaluable part of my macro process by recognizing the start of a global reflation trade following the Shanghai Accord in February 2016, by helping me make sense of the Fed's actions amid Trump's trade war from 2017 to 2019, and by encouraging me to focus on dual use technologies which benefit from government-backed innovation races starting in 2018.

Prior to the pandemic, Worth and I both believed a Cold War was escalating as China and its Axis of Autocrats attacked the foundations of the rules-based order. We believed the USA was certain to struggle with the long and messy process of reclaiming vulnerable supply chains in the event of a sharp decoupling and hoped (in vain) that the Trump administration and Congress would accelerate the reshoring process to minimize such risks. However, in the early months of 2020, it became clear to us that China's weaponization of the SARSCoV2 pandemic was tantamount to the outbreak of a new world war and that a sharp decoupling had likely begun.

As 2020 progressed, Worth became increasingly convinced the USA needed a massive WWII-style fiscal and monetary push to rebuild America's supply chains and manufacturing base. As Worth saw it, a "fiscal supercycle" was the key to preserving the USA's superpower status and avoiding the ugly fate of the British Empire in WWII. Unfortunately, by early 2021 it became clear that Congress was not rising to the challenge. Congress did pass the American Rescue Plan, but it focused heavily on inflation-fueling entitlement spending instead of inflation-reducing investment in US industry and supply chains. Worth believed that inflation was set to surge (similar to 1946) and that the Fed would likely have to withdraw significant liquidity to reduce demand in the face of further wartime supply chain shocks.

Worth's ability to anticipate the future based on the experiences of the past has been uncanny. Subsequent events -- including Russia's invasion of Ukraine and the USA's revival of the 1941 lend-lease policy to supply the Ukrainian resistance with American arms -- have continued to validate Worth's macro and geopolitical frameworks. I know of no other analyst who straddles the worlds of global macro investing, politics, geopolitics, monetary and fiscal policy, and American grand strategy with Worth's process, vision, or obsessive drive to understand both the war and the possible futures America could face on the other side of the war.

I've never known anyone so motivated to spend his life searching old and obscure books and primary source materials for macro epiphanies that cast current events in a different light or one who is so willing to stick his neck out when he recognizes probable futures that markets have not yet discounted. Worth is not afraid to think big thoughts or make big calls. When the facts change, or when he realizes he is wrong, Worth is not afraid to change his mind.

Subscribers to Camelot Macro will receive access to Worth's thinking for a fraction of what I've gladly paid him to do this work for me over the last six years. I am confident that his missives will be "must read" for elite investors, macro and geopolitical analysts, and corporate decision makers. I hope you enjoy this inaugural issue of Camelot Macro and look forward to interacting with many of you over the phone and at future member events. Also, please feel free to share this inaugural Camelot Macro publication with anyone you feel may benefit from it.

Mark L. Hart III

Co-Founder & Contributor

Introducing Camelot Macro

I am excited to submit this inaugural issue of Camelot Macro's private briefing for your review and consideration.

Camelot Macro is a global macro and grand strategy intelligence service which will operate as a separate, non-investment advisory service of Corriente Advisors, LLC. Corriente is a Fort Worth-based investment advisor founded in 2001 by my partner and mentor Mark Hart, who is well known for his macro bets over the years including short the US subprime mortgage market starting in 2006, short European sovereign debt starting in 2007, short the Chinese yuan starting in 2010, and long conviction in Bitcoin starting in 2014. I have been privileged to have known Mark for over a decade and proud to work alongside him since 2016. He's taught me his process, but also given me the space to develop my own -- entertaining my attempts to see beyond the consensus and anticipate future narratives and macro shifts when more conventional thinkers might have dismissed them. Mark, after all, has been playing this game longer than I have and knows what it's like to have everyone agree with him... later.

Together with our partner, Tyler Neville (who will host our private podcast), Mark and I are launching Camelot Macro to share our process, publish our ideas, and build a community of intrepid investors, entrepreneurs, executives, and citizens -- united not only by an appreciation for differentiated global macro thought, but also a passion to explore the frontiers and possibilities of free societies. Our work expands on the traditional global macro analysis of economies, markets, and tech trends with an obsessive focus on history, geopolitics, and the great reorganizing forces of our time. We believe we offer a differentiated process and perspective which will be increasingly important for anyone who hopes to navigate and capitalize on the messy reorganization of the 2020s and 2030s.

Everything we do is built on an awareness that change is the only constant in life and markets. Our macro framework specifically focuses on the great reorganizing changes including (1) creative destruction and technological transformation enabled by the ongoing digital revolution, (2) geopolitical realignment and deglobalization amid a third world war, (3) climate change and the adaptation of human civilization, (4) generational transition from Baby Boomers to Millennials, (5) the remaking of key institutions and reforging of the social contract, and (6) the unlocking of new frontiers in space and cyberspace. As our understanding of the facts change, we change our minds and adapt our frameworks; but we've found that studying these forces intensely with a focus on where they overlap can help us anticipate powerful shifts far ahead of consensus.

Camelot Macro members will receive access to eight issues per year of our private intelligence briefing (which we will publish approximately every six weeks) and may also receive access to additional features such as our private podcast, periodic blog posts, special alerts in the aftermath of significant macro and geopolitical surprises, invitations to special events, and other opportunities to interact with our editorial team.

We expect different members will use our service in different ways. Some members will read everything we write and record and consume every book, article, academic paper, policy speech, and audio/video clip we recommend. Some will read the executive summaries and skim the bold text throughout our issues or read the specific sections most appealing or relevant to them. Some may wait for our private podcast or conference calls to hear the ideas presented in audio, video, or interactive formats. Others may save their energy for our conference calls and private member events to network in person with other members and faculty in the community.

The price of membership will not be nominal – rather, it will reflect the value we think our team and process deliver. Our publications will normally be highly confidential. However, as we are just launching Camelot Macro, [we encourage you to share this issue with anyone you think could be interested in becoming a member](#). At our discretion, we will also be happy to share the second issue of our private intelligence briefing in mid-August (and access to our first conference call shortly thereafter) with anyone who indicates a serious interest in membership.

This inaugural issue of our private briefing presents a very long and very high-level macro analysis to kick off what I hope will be a long conversation between the Camelot Macro team and our members spanning the next several decades. Typically, our main publication will be much shorter and will probe more deeply into specific policies, industries, companies, and change agents.

To apply for membership, or request more information on our service and pricing, please submit a membership application on our website (www.camelotmacro.com) or email us at info@camelotmacro.com. Thank you for your interest in Camelot Macro. I hope you enjoy this inaugural essay and look forward to your thoughts.

Worth Wray

Co-Founder & Editor in Chief

Build Back Stronger

by Worth Wray

“The supreme art of war is to subdue the enemy without fighting.”

~ Sun Tzu

“You probe with bayonets: if you find mush, you push. If you find steel, you withdraw.”

~ Vladimir Lenin

“In countries where there is great private wealth much may be affected by the voluntary contributions of patriotic individuals, but in a community situated like that of the United States, the public purse must supply the deficiency of private resource. In what can it be so useful as in prompting and improving the efforts of industry?”

~ Treasury Secretary Alexander Hamilton (1791)

“There is a rank due to the United States among nations which will be withheld, if not absolutely lost, by the reputation of weakness. If we desire to avoid insult, we must be able to repel it; if we desire to secure peace, one of the most powerful instruments of our rising prosperity, it must be known that we are at all times ready for war.”

~ President George Washington (1793)

“The legitimate object of government is ‘to do for the people what needs to be done, but which they cannot, by individual effort, do at all, or do so well, for themselves.’”

~ President Abraham Lincoln (1854)

“We must be the great arsenal of democracy. For us this is an emergency as serious as war itself. We must apply ourselves to our task with the same resolution, the same sense of urgency, the same spirit of patriotism and sacrifice as we would show were we at war.”

~ President Franklin Delano Roosevelt (1940)

“Today the United States is admittedly the most powerful nation in the world... but our present triumph may hold the seeds of our future destruction [if we repeat] the tragic mistake of the first World War when future security was sacrificed for fictitious normalcy.”

~ Secretary of War Robert Patterson (1945)

“Total war means total effort... and the peacetime preparations for it must be as comprehensive... as the execution of it... It would be easy, in preparing for total war, to lose the very things we are trying to defend.”

~ NY Times military editor Hanson Baldwin (1948)

“With full production, we can escape inflation and have our people resume their leadership... the whole world is watching us, amazed at the exhibition of a giant who cannot put himself together even to take care of his own needs.”

~ Bernard Baruch (1946)

“Let every nation know, whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hardship, support any friend, oppose any foe to assure the survival and the success of liberty. This much we pledge -- and more.”

~ President John F. Kennedy (1961)

“This nation’s strength and security are not easily or cheaply obtained – nor are they quickly and simply explained. There are many kinds of strength, and no one kind will suffice. Overwhelming nuclear strength cannot stop a guerilla war. Formal pacts of alliance cannot stop internal subversion... This strength is composed of many different elements, ranging from the most massive deterrents to the most subtle influences. And all types of strength are needed; no one kind can do the job alone.”

~ President John F. Kennedy (undelivered speech, 1963)

“Our military strength is a prerequisite to peace, but let it be clear we maintain this strength in the hope it will never be used, for the ultimate determinant in the struggle that’s now going on in the world will not be bombs and rockets, but a test of wills and ideas, a trial of spiritual resolve, the values we hold, the beliefs we cherish, the ideals to which we are dedicated.”

~ President Ronald Reagan (1982)

“It must surely be a mistake to adopt an economic policy which makes you rich if you eliminate your national workforce and transfer production abroad, and which bankrupts you if you continue to employ your own people.”

~ Sir James Goldsmith (1993)

Overview

In this inaugural issue of Camelot Macro, I'd like to share some high-level thoughts on rapidly deteriorating relations between the United States of America and the People's Republic of China and explain why I believe...

- The USA now finds its back against the wall similar to the British Empire in 1937 as a new Axis of Autocrats, anchored by China and Russia, test the USA's commitments to our Allies and partners and attack the foundations of the rules-based international order.
- USA's manufacturing base has been dismantled after 30 years of economic engagement with China -- to the point where the world's leading superpower has become almost intractably reliant on its main geopolitical challenger.
- The domestic production of US defense equipment appears to be so extensively compromised that the once unrivaled defense industrial base (called the "Arsenal of Democracy" in WWII) may not be able to keep pace with China's emerging Arsenal of Autocracy in a sustained production race -- possibly giving the Axis a non-nuclear military advantage over the Allies.
- China appeared on track to "win without fighting" when Donald Trump was elected President in 2016, but his efforts to reset US economic relations with Allies and enemies alike provoked a dangerous escalation from a long-running cold war to a new world war in 2019.
- China's weaponization of the SARSCov2 virus in 2019, Russia's renewed invasion of Ukraine in 2022, and China's threatened invasion of Taiwan are the most visible aspects of a much larger "full spectrum" and "full society" war which is being fought across a vast spectrum of competitive domains.
- In addition to the recognized warfighting domains (air, land, sea, space, & cyber), this war will also be waged and even decided in less recognized domains such as foreign aid, international trade, financial markets, resources, technology, culture, and public opinion, where the contributions of self-organizing citizens may matter as much as the top-down efforts of governments and militaries.
- US support for Ukraine and Taiwan may be critical to the defense of the Allied order, but also threatens to deplete the Arsenal of Democracy -- demanding a larger, long-term campaign on the order of WWII to rebuild the USA's resource and manufacturing independence and replenish stockpiles of military supplies.
- Success in this campaign to restore USA's production independence will not guarantee victory in the larger war against the Axis powers; but failure to restore production capabilities at scale could doom the USA and our Allies to a future of coercion at the hands of the Axis regimes and even the death of liberal democracy.

- In parallel, citizens who possess the relevant skills and expertise will need to mobilize to rebuild the nation's education and innovation base and unlock technological breakthroughs that can give the USA and its Allies decisive advantages in the longer-term war against the Axis.
- As in WWII, the free market has failed to proactively respond to this crisis. Americans must learn from Britain's mistakes in the 1920s and 1930s, recognize that Axis aggression poses a greater risk than high public debt and leverage the nation's wealth and reserve currency status to rebuild the nation's strength while we still have the fiscal runway to do so.
- Even if China collapses under the weight of high debt and a rapidly aging/shrinking population in the decades ahead, all may be lost without a large-scale fiscal supercycle to rebuild the foundations of the USA's comprehensive strength, reduce the Axis' leverage, reassert a rules-based international order, and lay the foundations for a new era of prosperity.
- A temporary détente may be necessary to buy time to fix the USA's strategic vulnerabilities, but détente which serves to preserve the US-China economic relationship and delay efforts to rebuild Allied supply chains is not a viable option.
- Wartime coordination between the US Treasury and the Federal Reserve is critical to creating the conditions for the necessary fiscal super-cycle to happen and it appears Jerome Powell understands his role -- both in using aggressive monetary tightening to squeeze (and even strangle) the Axis regimes while creating the economic conditions for Congress to act and then in using aggressive monetary accommodation to support large wartime fiscal deficits as in WWI and WWII).
- Investors and business leaders must adapt for a new era of deglobalization and take up their roles rebuilding US and Allied economies as the world splits into regional blocs and companies are forced to compete for wallet share amongst smaller populations. Both groups stand to gain more from betting on the USA's resurgence than on the ascendance of the Axis.
- There will be many winners and losers. Success in identifying and evaluating the most compelling opportunities is increasingly going to depend on understanding global macro, geopolitical, and geoeconomic trends and shocks in context of the grand strategy of the United States, its Allies, and the enemy Axis. Opportunities abound and it's time to build like our lives and legacies depend on it.
- Some of the most exciting opportunities could be in commodity producers located in Allied markets, other beneficiaries of a forthcoming US fiscal supercycle, and next generation technologies with large total addressable markets which confront the greatest problems facing free societies.

Before I dive into the specifics of the US-China rivalry and the war that's now underway, I'd like to frame the United States' current strategic position in light of the epic strategic mistakes Britain made in the interwar years between WWI and WWII.

Why England Slept

In his 1938 book ([While England Slept](#)), Sir Winston Churchill blamed his political opponent Neville Chamberlain's "policy of appeasement" for emboldening Hitler and failing to prevent WWII. In his 1940 rebuttal ([Why England Slept](#)), John F. Kennedy argued that **Chamberlain bought time for Britain to improve its strategic position in the years following the Munich Agreement in 1937** and that an earlier confrontation with the Nazi war machine might have been even more disastrous.

Further, the young Kennedy argued Britain's failure to prepare for and deter Hitler's aggression was a function of a much deeper complacency in British society following WWI. He also noted the general tendency of democratic and capitalist societies to oversleep in the face of a rising totalitarian threat. **Hitler mobilized a far less formidable economy to rebuild Germany's military with the latest technology. Meanwhile, Britain slept through the 1930s with no significant efforts to upgrade its navy or air force until 1937** when Chamberlain returned from Munich and ordered a significant increase in British aircraft production.¹

While the USA, in part because of its geography, had the luxury of mobilizing its industry after it had been drug into the war in 1941, Britain had no such luck. The three years between 1937 and 1940 made a material difference in Britain's ability to withstand the Nazi menace until the USA entered the war in 1942. However, Chamberlain's mobilization came too late to deter the Nazi blitz across Europe, the destruction of the British navy, the defeat of British forces in France, or the aerial bombing of Britain in 1940.

Had Britain upgraded its military readiness in the 1920s or early 1930s, it might not have been leapfrogged militarily and might not have offered such a compelling window of opportunity to Nazi Germany in the European theater or to Imperial Japan in the Pacific. Had it recognized the early signs of Axis hostility and started making earnest preparations after Japan invaded Manchuria in 1931 or after Italy invaded Ethiopia in 1935, Britain might have found itself in a very different strategic position. Instead, **like the "fiscal conservatives" in US Congress today, British leaders saw the nation's high public debt (despite the Pound sterling being the dominant reserve currency at the time) as a greater threat than the Nazi war machine.**

"We are far better suited industrially to match Germany's mass production methods," noted Kennedy. "But, like England, we will be a democracy competing with a dictatorship. Like England, our capitalist economy will be competing with the rigid totalitarianism of the dictatorships. Like England, our armaments will have to be paid out from our national budget. Like England, a towering national debt may appear to us more dangerous than any external menace. Like England, we have general commitments that we may not be able to fill... We have, however, one great advantage over the English. We have the benefit of their experience."

¹[Did Neville Chamberlain create the conditions for RAF to win the Battle of Britain? -- New Statesman](#)

I see strong parallels between Britain 80 years ago and the USA today. Like Britain in 1937, the US and the international order which depends on it is under attack by an Axis of autocrats looking to displace its leadership on the world stage. Repeating Britain's mistake, the US has failed to maintain its strength and is struggling to reach the democratic consensus necessary to counter China's weaponization of the SARSCoV2 virus, Russia's renewed invasion of Ukraine, and their joint threats of nuclear war against those who stand in their way. Like Britain, our supply chains are extended and brittle and our domestic manufacturing base may not be able to withstand the outbreak of war. **Moreover, like Britain in the late 1930s, America's democratic and capitalist society has been slow to counter the Axis' hostility and now finds itself behind the curve.**

"We must be prepared to recognize democracy's weaknesses and capitalism's weaknesses in competition with a totalitarian form of government. We must realize that one is a system geared for peace, the other for war. We must recognize that while one may have greater endurance, it is not immune to swift destruction by the other. It means that in preparing for war today, which takes such a long time and is so expensive, **a democracy may be struck such a knockout blow by a totalitarian form of government, which has prepared for war over a long period, that she will not be able to bring in the latent advantages that she possesses.** It is only in the long war that the advantages of a greater spirit and determination among the people will be effective... [The] great advantages of a dictatorship must be recognized if we are ever to hope for a survival of our system. To ignore them today when it is being menaced would be suicidal... while the menace is there, **all groups must be prepared to sacrifice many of the particular group interests for the national interest. By voluntary effort, we must be prepared to equal the centralized effort of the dictators... It's the system that functions in the pinches that survives.**"

I fear we are seeing history repeat -- with modern nuclear arms, hypersonic missiles, spaced-based weapons, cyber weapons, and other modern capabilities reducing the geographical advantage of the USA's surrounding oceans, making it more like Britain in 1940 than the USA at the time. And yet American society has not yet awoken from its slumber. I believe American democratic capitalism to be vastly superior to the mercantilism of modern China (slowing under the weight of the early 2010s credit boom) and its Axis of Autocrats (including Russia, Iran, and other rogue regimes and organizations). However, **I have to recognize the potential for this new Axis to exercise their considerable leverage over the United States in a way that diminishes its place in the world, undermines its strength at home, and could even deliver a knockout blow in the short-term.** What's more, without a robust, independent, and fully functional resource and manufacturing base, (or a like-minded industrial superpower to backstop the United States in its darkest hour as the United States did for Britain in the 1940s), I struggle to see how a divided America can effectively counter the centralized efforts of the autocrats.

Americans have long taken for granted the idea that the United States enjoys and maintains the strongest military in the world -- that in a contest of hard power it would not only win but win big. That narrative doesn't hold up to scrutiny. A bipartisan commission of military experts shared a grim assessment of US military readiness in 2018²: **"The U.S. military could suffer unacceptably high casualties and loss of major capital assets in its next conflict. It might struggle to win, or perhaps lose, a war against China or Russia. The United States is particularly at risk of being overwhelmed should its military be forced to fight on two or more fronts simultaneously.** Additionally, it would be unwise and irresponsible not to expect adversaries to attempt debilitating kinetic, cyber, or other types of attacks against Americans at home while they seek to defeat our military abroad. U.S. military superiority is no longer assured and the implications for American interests and American security are severe."

The same commission highlighted risks emanating from the erosion of the US industrial base, particularly in defense production. "The contrast between Chinese and American investments in technology and manufacturing is stark. Since enactment of the Budget Control Act in 2011, the United States has lost roughly 17,000 prime defense vendors because of a lack of sufficient and predictable funding for defense. More broadly, an estimated 60,000 factories have closed, as China's own national security innovation base has grown markedly. The cumulative result has been to significantly diminish the superiority in innovation and manufacturing that has long been critical to America's military edge... But if the United States does not protect sources of technological innovation and key areas of manufacturing capability and capacity, its ability to develop and sustain the means through which it pursues the National Defense Strategy will be at risk. The U.S. government must give serious consideration to questions such as whether it should increase investment to preserve and strengthen industries that produce vital technology and components, and whether some selective economic disintegration with U.S. rivals -- namely China -- may be necessary to ensure that America is not dependent on those rivals for critical components of key systems and platforms. It will be necessary to intensify U.S. engagement with allies and partners regarding how to avoid excessive technological or economic dependence on rivals."

While President Kennedy would likely be shocked to learn just how severe the USA's security has been undermined over the last 30 years, he offered hope in 1940 that, in situations such as this, enough Americans would recognize the threat and take action to set the country on a new course: **"We believe that a democracy can, by voluntary action, equal this effort [of the autocrats] when the emergency comes and sustain it over a longer period of time. We believe that groups will coordinate their private interests with national interest, thus giving a greater force and vigor than could have been attained by totalitarian methods."**³

²[National Defense Strategy Commission. "Providing for the Common Defense: The Assessment & Recommendations of the National Defense Strategy Commission." November 23, 2018.](#)

³JFK, Why England Slept, 1940, p 201.

In contrast to JFK's hope of Americans asserting their power and influence to uphold the interests of the nation in times of crisis, in 1941, President Franklin Delano Roosevelt warned in his famous speech on the four freedoms (freedom of speech, freedom of worship, freedom from want, freedom from fear) that **the nation should "especially beware of that small group of selfish men who would clip the winds of the American eagle in order to feather their own nests" if allowed to do so.**⁴ Said differently, all that is necessary for evil to prevail is for good people to do nothing.

82 years after the 23-year-old JFK published Why England Slept, the logic of voluntary cooperation and proactive national investment on which the fallen President's vision for America was built is once again a matter of national survival. In precisely the same spirit, by the end of this essay, **I hope you will recognize the civic and investment logic of aligning your personal interest with national interest and start looking for ways to apply your knowledge, capital, and effort to rebuild the USA's comprehensive strength.** With renewed commitment to American ideals, the effort and incentives to build a better and stronger USA, and a new social contract to balance the interests of capital and labor, I believe American capitalism can overrun the Axis in the long-run and build Camelot upon the ashes of autocracy.

Losing the Peace... & America's Manufacturing Base

In his 1982 speech to the Members of British Parliament, President Ronald Reagan emphasized the importance of upholding the vitality of democracy at home and supporting its proliferation around the world. "In the Communist world as well, man's instinctive desire for freedom and self-determination surfaces again and again... **How we conduct ourselves here in the Western democracies will determine whether this trend continues.** No, democracy is not a fragile flower. Still, it needs cultivating. If the rest of this century is to witness the gradual growth of freedom and democratic ideals, we must take actions to assist the campaign for democracy."⁵

Engagement with China achieved USA's chief goal in the 1970s and 1980s (helping to isolate and "contain" the Soviet Empire until its dissolution in 1991), but subsequent engagement ultimately came at the cost of the USA and other Allied democracies losing sight of their core values and compromising the vitality of their respective systems. Pro-democracy movements did spring up on multiple occasions but were crushed by the Chinese Communist Party while the US government (at the behest of Corporate America and Wall Street) did little to support the revolutionaries, insisting that China would inevitably embrace democracy as it grew rich. With US corporate and political momentum in China's favor (and with Presidents Clinton, Bush, and Obama never quite finding the right time to enforce the rules of the relationship), both major US political party establishments expanded China's trade access over the course of the 1990s and cheered on the globalization of multinational supply chains, the dismantling of the US industrial and resource bases, and the hollowing out of the American middle class – all in the name of "progress".

⁴[FDR, 1941 State of the Union Speech, January 6, 1940.](#)

⁵[President Ronald Reagan's speech to Members of British Parliament, June 8, 1982.](#)

The long-term implications of these compromises did not go unchallenged. French-British financier Sir James Goldsmith, for example, spoke out passionately in defense of democratic vitality and against labor arbitrage (i.e., offshoring production to low wage economies and importing finished goods to sell to the same consumers at lower prices and larger profit margins), arguing, **“It must surely be a mistake to adopt an economic policy which makes you rich if you eliminate your national workforce and transfer production abroad, and which bankrupts you if you continue to employ your own people...** A nation is split into two broad segments, one which produces wealth and the other which dispenses it. That in no way means that the latter is inferior; it includes such vital activities as health and education... one cannot reduce that part of our economy which produces wealth and expect to be able to maintain the other part which dispenses it. You must earn what you spend.”⁶ Goldsmith expanded on this idea that labor arbitrage undermines national employment and vitality in a 1994 interview with Charlie Rose: “When you manufacture something, you have a value added. The value added is when you take the raw materials and you manufacture a product. The value you add... is shared between capital and labor. The whole division, the sharing of that, has been the subject of massive debates for generations. How much should go to capital? How much should go to labor? You’ve had strikes, you’ve had lockouts, you’ve had political debates. **All of a sudden, by creating a global marketplace for labor -- by creating circumstances where people are making the same product, with the same technology, with the same capital, and the only variable is cost of labor -- you are shattering... the way you share the value added and that means you are destroying the basis on which we’ve been able to create an equilibrium and have a stable society...** I am entirely for free enterprise. I am for free markets... I’m not for the destruction of one’s society.” Like Cassandra of ancient Troy -- seeing the path ahead but unable to convince complacent democratic societies to change course -- Goldsmith’s warnings fell on deaf ears. Believing the Cold War had ended and the United States stood unrivaled on the world stage, good people who had previously been vigilant to defend the nation’s strength did nothing and a small group of selfish elites bamboozled the investment community into one of the greatest examples of national suicide in recorded history.

If you’ve ever seen Branko Milanovic’s [“Elephant Chart”](#), you’ll know the top 1% of global earners and the “global middle class” received the bulk of the increase in annual earnings from 1988 to 2008.⁷ What seems to be less understood, as Caroline Freund at the Peterson Institute for International Economics has shown, is the virtually all of that increase in earnings for the “global middle class” was attributable to China⁸. Other economies saw only marginal benefits by comparison while the middle class of the advanced economies was decimated.

⁶Goldsmith, James, [The Trap](#). 1994.

⁷[Lakner and Milanovic, “Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession”, World Bank Economic Review, 2015.](#)

⁸[Caroline Freund: “Deconstructing Branko Milanovic’s Elephant Chart, November 30, 2016.](#)

When I was in college, I thought this is what progress looked like on a global level; now I understand this is what it looks like for China to win without fighting -- for the owners of capital and managers of multinational business to dismantle democratic societies and build up a hostile rival.

Unsurprisingly, over the next 30 years, instead of China becoming more like the United States; the United States became more like China and the once hearty flower of American democracy began to wither. Just as President John F. Kennedy and his brother Senator Robert F. Kennedy had warned before their political assassinations in 1963 and 1968, premature engagement with an unchanged China did, in fact, tempt fatal danger... and Beijing seized the opportunity with both hands.

Shortly after China's entry into the WTO in 2000, as the Bush administration was preparing to designate China as its principal adversary in the fall of 2001,⁹ the USA suffered the worst attack on US soil since Imperial Japan's attack on Pearl Harbor in 1941. In response, President Bush (with the overwhelming support of Congress and the American people) initiated two failed wars in Afghanistan and Iraq and sought the cooperation of both China¹⁰ and Russia as "strategic partners" in the war on terror.¹¹ Together with the high social and economic costs of offshoring, the wars of the 2000s drained the nation's resources and undermined its moral leadership when it should have been investing to compete in the 21st century.

American society lost its zeal for liberal democracy, failed to maintain its middle class, and relinquished its industrial might to the geopolitical challenger it had been preparing to fight as recently as the morning of September 11, 2001.

Meanwhile, just as Beijing previously extracted the materials and know-how from Stalin's USSR to become one of five atomic powers by 1964, Communist China built its strength through non-reciprocal trade and extracted a treasure trove of military, dual use, and commercial intellectual property.

Within 20 years of the USSR's dissolution, the most dominant superpower in world history voluntarily made itself almost intractably dependent on a stable trading relationship with the world's largest surviving Communist regime not only for finished goods, but for key materials and components that are critical for a substantial portion of the USA's domestic production. No one benefited more from the America's missteps than the Chinese Communist Party (except, perhaps, executives and investors who were "long globalization"); and no one will benefit more going forward if the US fails to rebuild its comprehensive strength, reforge its key Alliances, and renew its commitments to freedoms and capitalism.

⁹[US told to make China its No 1 enemy -- The Guardian](#)

¹⁰[Bush Lauds China Leader As 'Partner' In Diplomacy - The New York Times](#)

¹¹[Russia, China, & the US: In Terror. At Last a Common Enemy for the Big Three - The New York Times](#)

Disarming the Arsenal of Democracy

I don't pretend to be an expert on complex supply chains but have been obsessing about the broken state of US manufacturing (particularly in the defense sector) since 2015. I have spent a considerable amount of time investigating both the current risks and their implications in light of history.¹² The deeper I have dug into this macro theme, and the longer I've watched tensions between Axis and Allies escalate without the USA moving at the necessary speed and scale to fix this problem, the more my concerns have grown.

USA defense manufacturing base (often called the "Arsenal of Democracy") was one of America's greatest strategic advantages throughout the 20th century. **In WWII, US factories vastly outproduced the Axis in nearly every category including raw materials, tanks and other vehicles, artillery, guns, mortars, aircraft, ships, and nearly every other category of consequence.** While the successful demonstration and use of the atom bomb notably helped to end the war on a more decisive note in 1945 and changed the nature of both war and diplomacy thereafter, the US production miracle was one of the key factors supporting the Allies' victory. American factory production was also one of the main deterrents against more conventional aggression by the Soviet Empire in the early years of the Cold War from 1945 to 1991.

A Department of Defense ("DoD") report prepared for President Trump¹³ and published in September 2018 ("Assessing & Strengthening the Manufacturing & Defense Industrial Base & Supply Chain Resiliency of the United States"¹⁴) acknowledged "the roots of America's defense industrial base are planted in the broader manufacturing ecosystem", calling the USA's manufacturing base "the backbone of US military technical advantage". The same report then went on to explain how that backbone is seriously compromised and could break in the event of a major war, noting five macro forces which are eroding American production capabilities. These forces include (1) sequestration and uncertainty of US government spending, (2) the decline of US manufacturing capability and capacity, (3) US government business practices, (4) the industrial policies of competitor nations, and (5) diminishing US STEM and trade skills.

Most of the damage to the USA's manufacturing independence has reportedly occurred in sub-tiers of the supply chain where profit-driven and often publicly listed contractors are procuring parts and materials from insecure foreign sources, representing what DoD characterized as "a surprising level of foreign dependence on competitor nations". Not only could this dependence on imports from rival nations result in broken supply chains and production halts at the whim of such competitors; the equipment manufactured with foreign made parts could potentially contain compromising bugs and/or viruses which could pose serious liabilities and could render compromised equipment unusable in wartime.

¹²My partners and I also hope to host some of the leading experts on this theme and related topics in future issues of Camelot Macro's private briefing and future episodes of Camelot Macro's podcast.

¹³I'd like to note that regardless of your personal political affiliation or feelings about the Trump or Biden administrations, this is not a partisan report.

¹⁴[DoD: Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States, 2018.](#)

The DoD report acknowledges these manufacturing “gaps” and vulnerabilities are “sometimes [the] collateral damage of globalization” but also the result of “specific targeting by great powers like China”. Further, such gaps are exacerbated by the “deficiency of US-based human capital”, the “erosion of domestic infrastructure”, and “unstable [fiscal] appropriations over the past decade”.

“The next generation of weapons will require advanced software, artificial intelligence, and machine learning, but traditional manufacturing processes continues to build the systems, platforms, and munitions that deliver kinetic effects. Both aspects of the industrial base are needed for long-term economic growth and national security.” However, “due to erosion that has already occurred, some manufacturing capabilities can only be procured from foreign suppliers, many of which are not domiciled in allied and partner nations.” DoD acknowledges “**these negative impacts have the potential to result in limited capabilities, insecurity of supply, lack of R&D, program delays, and an inability to surge in times of crisis.**” I don’t mean to imply the entire US manufacturing base or defense sector manufacturing base is broken, but sudden and lasting breakdowns in key supply chains could result in the unpredictable loss of important capabilities in a serious crisis or war when production would otherwise need to expand to meet surging demand. 3D printing offers hope in overcoming shortages in certain types of parts, but cannot overcome the need for critical materials in most cases.¹⁵

What’s worse, the erosion of American manufacturing capabilities and risk of unexpected production halts will persist as long as the United States fails to upgrade the hard productivity of the nation, invest more heavily in developing the human capital of the nation’s youth and workers in transition, and return to being a merit-based society that values progress and rewards merit instead of slowing progress in the name of statistical equality. Human capital takes decades to build and must not be prevented from growing to its maximum potential or moving into its highest and best use -- regardless of race, gender, or sexual orientation.¹⁶ Based on these assessments and others like it, **I seriously doubt the USA’s current capacity to outpace (or keep pace) with Chinese defense production in a global contest pitting Allied forces (or Allied proxies) against those of the Axis regimes (or Axis proxies).**

¹⁵[U.S. Military To 3D Print Its Way Out Of Supply Chain Woes -- Forbes](#)

¹⁶Social engineering efforts to allocate jobs or educational opportunities on any basis other than merit (such as ideologically driven efforts to correct persistent inequalities) not only rob the nation of its future economic dynamism but also its future security and its potential for lasting social progress. In my opinion, if Americans want to close income and wealth inequalities and low representation in STEM fields endemic to certain minority groups, we should focus on ensuring access to human capital-forming opportunities for all citizens. I believe the social contract forged in the fires of WWII (upholding the rights of the individual, but also the needs of society at large) was correct in theory but has been called into doubt in recent years because it did not invest in or respect all Americans equally in practice. The USA’s greatest riches are our people and failing to educate our people or holding them back as a function of right-wing “fiscal conservatism” or left-wing social engineering is like refusing to develop vast deposits of raw materials which could be unlocked at high profit margins.

Fortunately, the USA's human capital constraints can be eased materially in the short-run by ending the SARSCoV2 vaccine mandate for federal workers and inviting high-skilled and highly educated workers to make their homes in the United States while pushing hard to improve the current state of public education. Even then, the USA may be well short of the labor needed to advance this monumental effort and may need civilians with STEM and relevant trade skills to temporarily leave their careers to support the national rebuilding effort. That may seem like a crazy idea, but it beats the possible alternative of being conscripted onto the frontlines of a kinetic war if the US fails to deter future Axis hostility with renewed American and Allied strength.

Another problem of particular significance is China's capture of the processed rare earths industry which are required to make magnets, wind turbines, advanced military weapons systems, 5G equipment, camera lenses, catalytic convertors, aircraft engines, specialized glass, TV screens, computer monitors, X-ray equipment, smart phones, and other hardware that has become important to modern life and critical to national defense.¹⁷ The United States and its Allies have abundant deposits of rare earths, but China has captured the vast majority of global market share for the processing of (and equipment needed to process) rare earths.¹⁸ My best contacts who study the rare earth industry have told me companies from Allied markets can't compete with the big six Chinese rare earth enterprises which absorb a lot of black-market material (costing as little as one third of regular material) into their supply chains. Allegedly, these companies not only benefit from extensive subsidies from the local, provincial, and national levels of the Chinese government, they're allowed to skirt the rules constraining their competitors across the free world. Accordingly, a 2016 study by the Department of Commerce's Bureau of Industry and Security found that 66% of respondents imported rare earths or associated materials, overwhelmingly from China which dominates up and down the rare earth supply chain.¹⁹ The US Department of Defense ("DoD") asserts "**China has strategically flooded the global market with rare earths at subsidized prices, driven out competitors, and deterred new market entrants.**"²⁰ The United States once had the capacity to provide the building blocks for its manufacturing needs and those of its Allies, but the loss of US rare earth processing capacity and reliance on imported material from non-allied sources has crippled the manufacturing base similar to the way US forces would seek to cripple the productive capacity of an enemy economy in the early stages of a war.²¹ The damage is not apparent when global supply chains are flowing smoothly, but could become apparent in the event of a serious breakdown or escalating kinetic war.

¹⁷[What are 'rare earths' used for? - BBC News](#)

¹⁸[Beijing Is Preparing for Possible Economic War and Decoupling With the West - Foreign Policy](#)

¹⁹[US Department of Commerce: "Strategic Material Supply Chain Assessment: Select Rare Earth Elements," 2016.](#)

²⁰[DoD: Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States, 2018.](#)

²¹[Krepinevich, Andrew and Barry Watts, The Last Warrior: Andrew Marshall and the Shaping of Modern American Defense Strategy, 2015.](#)

Until the private and public sectors fix these bottlenecks, the US factory sector (including defense contractors) may struggle to surge production of critical supplies in times of crisis.²²

While the US government is not explicitly waving a flag to highlight the nation's supply-side vulnerability, the Biden administration similarly released a series of concerning reports highlighting the fragility of important (military and non-military) supply chains.²³ In one such report released in February 2022, which acknowledges that supply chain disruptions "pose significant risks to national security", Deputy Secretary of Defense Kathleen Hicks recently noted "**our work to build resilient, competitive, and sustainable supply chains will be a long-term campaign.**" That same report notes, "Today there are 25% fewer US manufacturing firms and plants than there were in 1997, reflecting not only closures but also fewer manufacturing startups. **Loss of domestic manufacturing capacity can have a deleterious effect on defense capabilities, resulting in the DoD securing more components from foreign sources. The increased dependence on imports has inflated the size and complexity of supply chains and created more opportunities for supply chain disruptions and potential threats.**"²⁴ Predicting the severity of such disruptions in the event of a major US-China decoupling or escalating war with the Axis regimes is exceptionally difficult, but the potential for extremely negative surprises appears to loom. The shortage of masks and other personal protective equipment in 2020 was damaging enough to US national security and we should do everything possible to avoid similar shortfalls by the Arsenal of Democracy.

How Trump's Trade War Escalated into a World War

Before we go on to consider the implications of America's apparently broken domestic resource and manufacturing bases, I'd like to offer a brief survey of how President Trump's efforts to reset the US-China trading relationship ultimately failed and escalated into a new world war in mid-2019.

As my partner Mark Hart and I explained in a March 2018 interview with [Real Vision TV](#), I once agreed with President Trump and his advisors such as Steven Mnuchin and Robert Lighthizer that a US-China trade reset could preserve mutually-beneficial relations between the world's two largest economies.

²²I don't know where USA is going to get all of the machine tools it will need to rebuild its manufacturing capacity but cannot imagine China exporting such equipment at sufficient scale to aid USA's reindustrialization. I've had a hard time finding information on the global machine tool market but hear other exporters like Japan have significant backlogs. So, machine tools could also be a significant bottleneck.

²³["Building Resilient Supply Chains, Revitalizing American Manufacturing, & Fostering Broad-Based Growth", The White House, June 2021.](#)

²⁴["Securing Defense-Critical Supply Chains", US Department of Defense, February 2022.](#)

Specifically, I believed a US-China trade deal and currency stability pact (like the one the Trump administration was negotiating) could breathe new life into the US economy by realigning the USD/CNY exchange rate similar to the Plaza Accord²⁵ in 1985 which internationalized the Japanese yen, reset the USD/JPY exchange rate, and shrunk the USA's trade deficit with Japan.

I thought such a reset was necessary to build on the early 2016 “Shanghai Accord” in which central bankers and finance ministers from the US, EU, Japan, and China intervened to reign in the strong US dollar, stave off a disorderly depreciation of the Chinese yuan, and avert a global financial crisis -- which I assumed would lead to yet another crisis if not addressed with a structural reset of the world economy. The idea was that internationalizing and strengthening the yuan versus the US dollar would also help to reduce the US trade deficit with China, encourage reshoring back to the United States (or Mexico), and prevent the kind of global financial crisis that could result from a Chinese currency shock.

In hindsight, a **Reagan-style reset was not workable with China because the Chinese Communist Party was not interested in a “mutually beneficial” economic relationship** -- only in a “win-win” relationship in which China wins twice. For Beijing, I now realize that imbalanced economic engagement coupled with pervasive theft of American intellectual property was as much about co-opting US strengths and exploiting its weaknesses as it was about growing and developing China's economy. **While the US system has been geared for peace, China's has been geared for war.**

The Plaza Accord in 1985 worked specifically because Japan and Germany were relatively likeminded Allies of the United States who depended on the US security umbrella. Although relations were strained in the mid-1980s, both countries accepted the US-imposed reset and kept cooperating in subsequent years to preserve the rules-based international order which served their mutual interests. In contrast, **the Chinese Communist Party has shown little interest in preserving its place in the US-led international order and, similar to its hostile pivot away from the Soviet Union starting in 1959, is now openly challenging the USA's leading role.** As Lee Kuan Yew noted in 2013, “China wants to be China and accepted as such, not as an honorary member of the West.”²⁶ I believe Beijing's “no limits” partnership with Russia (announced in February 2022 at the Beijing Winter Olympics)²⁷, 25-year partnership with Iran (signed in March 2021)²⁸, support for proxy regimes in places like North Korea, Venezuela, Cuba, and terror organizations like the Mexican drug cartels should be seen in this light.

²⁵[The Baker Institute, Currency Then and Now: The Plaza Accord, 2015.](#)

²⁶[Interview: Lee Kuan Yew on the Future of US-China Relations – The Atlantic](#)

²⁷[China-Russia joint statement, February 4, 2022.](#)

²⁸[Iran and China sign 25-year cooperation agreement -- Reuters](#)

Despite President Trump's threats of decoupling and American reshoring, it appears he was more interested in a zero-sum deal which would boost his electoral prospects. "It just doesn't get any bigger than this, not only in terms of a deal but really in terms of what it represents," boasted President Trump upon signing the Phase One trade agreement alongside Chinese Vice Premier Liu He on January 15, 2020. "Keeping these two giant and powerful nations together in harmony is so important for the world, not just us but for the world."²⁹ While President Trump succeeded in extracting some concessions on paper; I think it's now clear that China used the trade agreement to buy the President's complacency and cooperation in the early stages of the SARSCoV2 pandemic.

By the summer of 2019, China escalated from retaliatory tariffs into threats of withholding processed rare earths and demonstrations of advanced weapons including possible underground nuclear tests³⁰ and proliferation of anti-satellite weapons.³¹ These "cold war" type tensions smoldered over the summer months even as Trump and Xi appeared to call a ceasefire before the June 2019 G20 meeting in Osaka and later reached a breakthrough in the 13th round of trade talks in the fall of 2019. **Long before the ink on the Phase One trade agreement was dry, it appears China was already playing offense in the early stages of a new world war.**

To be clear, China never reported the SARSCoV2 outbreak and instead acted to obfuscate the virus' origins while playing offense on a number of fronts. It is hard to verify documents attributed in public to the Chinese Communist Party or the People's Liberation Army, but one such document allegedly produced in 2015 suggests **bioweapons could be the "core weapon for victory" in the next world war.**³² I don't know how SARSCoV2 emerged and spread beyond China's borders. It could have naturally arisen. It could have escaped from a lab. It could have been intentionally released as a biological weapon. The latter two scenarios seem entirely plausible, but the origin is still unknown in large part because China withheld and continues to withhold information needed to make such determinations.³³ The origin of the virus and intent of China's obfuscation obviously matter, but I think Beijing's handling of the pandemic as a strategic opportunity also tells us everything we need to know.

We now know a number of labs in Wuhan reported huge increases in their purchases of PCR tests starting in May 2019³⁴ and that private analysis of cellphone location data shows no cellphone activity in the high-security area of the Wuhan Institute of Virology from October 7 through October 24, 2019³⁵ coinciding with the 2019 World Military Games in the same city.³⁶

²⁹[Remarks by President Trump at Signing of the US-China Phase One Trade Agreement – White House](#)

³⁰[China may have conducted low-level nuclear test, US claims -- The Guardian](#)

³¹[Department of Defense. "Military & Security Developments Involving the People's Republic of China". September 1, 2020.](#)

³²[China has been preparing for WW3 with biological weapons for last 6 years -- Daily Mail](#)

³³[Director of National Intelligence: Declassified Assessment on COVID-19 Origins](#)

³⁴[China Purchased Mass Quantity of PCR Tests Months Before First Reported Case of COVID -- Newsweek](#)

³⁵[Report says cellphone data suggests Oct shutdown at Wuhan lab -- NBC News](#)

³⁶[Congress is investigating whether the 2019 Military World Games in Wuhan was a covid-19 super spreader event - The Washington Post](#)

China's own trade data shows it hoarded its domestic production of personal protective equipment ("PPE") and drained the world of PPE with over 2 billion mask imports in early 2020, reportedly gathered from markets around the world by a vast network of United Front operatives (i.e., Chinese nationals doing the bidding of the Party).³⁷ Then, as the world collapsed into chaos and lockdowns with first-world hospitals being stretched beyond their capacities in Europe and North America, China launched a charm offensive in which it offered its excess PPE to political leaders around the world in exchange for praising China's handling of the pandemic.³⁸

Meanwhile, the US and other Allied governments accused both China and Russia of hacking government agencies, hospital systems, and pharmaceutical companies. Around the same time, the People's Liberation Army increased its military posture around Taiwan and killed 20 soldiers in a small battle on the China-India border. In an essay first published in June 2020, the head of the Ministry of State Security's think tank, Yuan Peng, contended the pandemic was "**as bad as a world war**" and "**a blow to America's soft and hard power**" clearing the way for China's ascension as America declines like Britain after WWI.³⁹

This unfamiliar form of warfare shouldn't be particularly surprising considering the long history of biological weapons development in both the USSR and China.⁴⁰ As American comedian and commentator Will Rogers quipped in the 1920s, "You can't say that civilization don't advance, for in every war they kill you a new way." The means of war have continued to evolve and expand in recent decades and Xi Jinping has specifically noted that "great changes unseen in a century" present the rare opportunity for China to displace the United States and reshape the international order to suit its own interests.⁴¹ This is not a new idea, but one that increasingly calls for the USA and other free societies to adapt or perish.

Just as a small fraction of the electromagnetic spectrum is visible to the naked eye, the recognized warfighting domains (land, sea, air, space, and cyber) account for only a small fraction of the domains in which this war is being fought.⁴² The battlefield is now everywhere and all around us. Such domains include (but are not limited to) public health, economic advantage and coercion, proxy support, political coercion and subversion, technology, climate policy, culture and religion, and public opinion. This list is rapidly growing with the emergence of new technologies, industries, and externalities -- meaning each war is more complicated than the last and hostility often takes on new, unexpected, and initially unrecognized forms.

³⁷[Prasso, Sheridan, "China's Epic Dash for PPE Left the World Short on Masks," Bloomberg Businessweek, September 30, 2020.](#)

³⁸[Don't Be Fooled by China's Mask Diplomacy -- RAND](#)

³⁹[Yuan Peng, "Coronavirus Pandemic " - Reading the China Dream](#)

⁴⁰[Soviet Defector Says China Had Accident at a Germ Plant - The New York Times](#)

⁴¹[China Prepares for 'Period of Major Change Never Seen in a Century' In 2019 New Year's Speech -- Newsweek](#)

⁴²[CSIS: By Other Means, Part I: Campaigning in the Gray Zone, July 2019.](#)

It is important to note that the stakes of conflict in these domains are essentially the same as a large-scale kinetic war and could be just as decisive. As such, the official sector does not dominate (and may not even understand) certain domains of consequence and cannot guarantee victory even if they succeed in dominating the physical battlespace. As such, **I believe we are fighting not only a “full spectrum” war, but also a “full society” war in which everyone has a part to play and the contributions of a small and disparate collection of self-organizing citizens may matter as much as the top-down efforts of governments and militaries.**

This is precisely why the Allied democracies cannot afford to allow this war to stay in the shadows simply to avoid escalation. The war has and likely will continue to escalate, but recent experience has shown the Axis can and will strike with expectations of limited reprisal if they strike with plausible deniability. That might mean weaponizing a pandemic (after the fact, if not before), encouraging a partner like Russia to invade a country like Ukraine, testing or taxing the capabilities of the USA to meet the needs of its people and its Allies, or polarizing an open society like the United States against itself.

Against a backdrop of extreme political division in the United States (something the Axis powers, particularly Russia, have succeeded in fomenting elsewhere), and with Russia’s invasion of Ukraine causing the USA to split its efforts between Europe and the Indo-Pacific, China has been emboldened. Beijing has ramped up its signals of readiness to invade and occupy Taiwan while periodically encroaching on the Indian border, building and arming artificial islands in the South China Sea, and making a hard push to draw the Pacific Islands nations (e.g., the Solomon Islands, Fiji, Kiribati, Samoa, Tonga, Vanuatu, Papua New Guinea, Timor Leste) into its orbit. Meanwhile, Russia continues to consolidate its grip over Eastern Ukraine and threatens to expand its hostilities elsewhere in Europe, a near-nuclear Iran saber-rattles in the Middle East, a now nuclear North Korea fires off missiles like its 2017 all over again, and Mexico’s President aligns with the autocratic regimes of Venezuela, Cuba, and Nicaragua in boycotting the 9th Summit of the Americas.⁴³

While Russia’s hostility against NATO and China’s threats against the Quad have had the outward impact of galvanizing a greater sense of Allied solidarity, **cracks are showing in key Alliances**. The US Congress has approved and President Biden has signed approximately \$58 billion of war aid for Ukraine since March 2022, but the response to date from other NATO Allies has been a considerably smaller €30 billion.⁴⁴ Despite the recent applications by Finland and Sweden to join the NATO alliance, and apparent progress toward an EU ban of energy imports from Russia at the end of 2022, the leaders of France and Germany advocate for a ceasefire which would see Ukraine cede territory to Russia. Meanwhile, US military officials reportedly admit they have been providing intelligence to Ukrainian military forces to kill Russian military officers in combat and targeting Russian interests via cyber operations.⁴⁵

⁴³[Mexican President won’t attend US-hosted Summit of the Americas due to exclusion of Cuba, Nicaragua and Venezuela - CNN Politics](#)

⁴⁴[Who’s Really Sending Aid to Ukraine? - WSJ](#)

⁴⁵[U.S. Intelligence Is Helping Ukraine Kill Russian Generals, Officials Say - The New York Times](#)

It remains to be seen whether the NATO Allies have the collective will to finish the job, if the USA will back down alongside other NATO members, or if the EU countries will instead choose to seek their own strategic autonomy in line with China's theme of multipolarity -- pushing the world toward a less unified world order in which China can more easily coerce the less powerful blocs and the United States is less able to benefit from the force multiplier of its Alliances. **The same concerns apply to the Quad, where despite showing a unified front against China, India refuses to cut its ties with Russia.** In May 2022, China and Russia conducted a joint exercise over the Sea of Japan with nuclear-capable bombers as the leaders of the Quad (including President Biden) met in Tokyo to build on their joint security partnership.⁴⁶ Recently, with Russian state TV claiming Russia could wipe out the East and West coasts of the United States with four nuclear weapons⁴⁷, the Kremlin has claimed it is now mass producing 50 of its nuclear-capable Sarmat-2 intercontinental ballistic missiles which could be used to directly target the continental United States⁴⁸.

In my opinion, the current state of affairs already looks a lot like the state of undeclared war in 1937 when FDR delivered his famous "quarantine" speech calling for the free nations of the world to isolate the Axis regimes spreading the "epidemic of world lawlessness".⁴⁹ While Americans should expect our leaders to make every reasonable effort to deter and prevent a larger war, I believe we are in a phase of this long-running competition where the internal division and supply chain weakness of the United States is inviting the escalating aggression. If and when you have time, I strongly recommend reading or listening to that haunting speech and considering the parallels with recent events.

China's Window of Opportunity

In early June 2020, former Deputy Assistant Secretary for Strategy and Force Development Elbridge Colby posted on Twitter, "**There are actually multiple reasons to think China may see a window of opportunity.** I personally find the military reasons the most compelling, but there are others... **The geopolitical window of opportunity analysis argues that China's economic and demographic prospects start to dim in the 2020s. To get ahead of this and perhaps avert that eventuality, Beijing may see it best to act in the 2020s...**The bottom line is that all of these analyses are plausible and well founded, and they're potentially mutually reinforcing. That's sobering."⁵⁰ I agree and would like to explain the key window of opportunity as I see it -- the one that keeps me up at night thinking of how WWIII could be as disastrous for the US as WWII was for the UK.

⁴⁶[China, Russia fly warplanes in military drill during Biden trip to Japan -- The Hill](#)

⁴⁷[Russian Official Threatens Nuclear Strike On U.S., Wipe Out Both Coasts With 4 'Satan-2' Missiles -- The Daily Wire](#)

⁴⁸[Russia warns it will have 50 new 'Satan-2' nuclear missiles -- NY Post](#)

⁴⁹[FDR's "Quarantine" speech, October 5, 1937.](#)

⁵⁰[Elbridge Colby's tweets on China's window of opportunity, June 8, 2022](#)

Communist China has been taking active steps to decouple from the United States in recent years and get in front of what could be a catastrophic demographic decline over the next few decades. The regime has shamelessly continued and possibly expanded its use of slave labor (which extends its economic runway) and announced plans to develop next generation semiconductors to ease a key production bottleneck the USA and its Allies still control. In recent months, China has taken extensive steps to stockpile food and other resources (which are key to its continued economic growth) and expand its use of coal.⁵¹ At the same time, China has floated agreements with major commodity exporters (including Saudi Arabia⁵² and Brazil⁵³) to denominate future trade and hold reserves in yuan and as the People's Bank of China sells down its US Treasury holdings in defense of the USD/CNY exchange rate. In light of Allied sanctions against Russia, Xi Jinping even recently instructed Chinese nationals to liquidate their asset holdings in the United States and other Allied markets.⁵⁴ It's not unreasonable to assume recent lockdowns may have more to do with testing and demonstrating wartime controls over the Chinese population than genuine efforts to mitigate the virus -- proof that the Chinese Communist Party knows it has a higher pain threshold than USA's election-minded political leaders and US society as a whole.

Beijing's intent aside, the shortage of masks and other medical supplies in early 2020 and the latest round of "zero-COVID" lockdowns in China in recent months have proven the US cannot depend so heavily on a single trading relationship on the other side of the world. Moreover, the recent shortage of essential supplies made in the USA (from baby formula to refined fossil fuels) show we cannot depend on a small number of conglomerates to meet the needs of the nation, nor allow the alarmism of far-left, singularly-minded environmental activists, mega-AUM investment managers, and corporate boards to undermine the production, processing, and distribution of the basic building blocks of economic activity.⁵⁵

Rebuilding American supply chains with financial support for companies relocating production from China back to the USA or elsewhere in the Americas should be an issue on which both major parties can agree, and yet President Biden has failed thus far to advance any large-scale, concrete plans to assist American and multinational companies in relocating their production from China. The administration is simply not moving fast enough, nor has it shown sufficient capacity for compromise with moderate Democrats⁵⁶ and Republicans who might be swayed by bills that allocate less to entitlement spending and more to hard security, productivity, and capacity-building investments.

⁵¹[With coal surge, China puts energy security and growth before climate change - The Washington Post](#)

⁵²[Saudi Arabia Considers Accepting Yuan Instead of Dollars for Chinese Oil Sales - WSJ](#)

⁵³[Brazil-China bilateral trade in Real and Yuan instead of US dollar — MercoPress](#)

⁵⁴[China Insists Party Elites Shed Overseas Assets, Eyeing Western Sanctions on Russia - WSJ](#)

⁵⁵While I believe climate change is an existential problem, de-growth attacks on the fossil fuel industry at a time the US has not secured resource security will not make the country safer nor the Earth more hospitable to humanity; I believe the right technology can, but pulling it forward will require large scale industrial policy in partnership with the private sector.

⁵⁶[The Joe Biden-Joe Manchin rift that's imperiling the White House agenda - The Washington Post](#)

Build Back Better could have morphed into “Build Back Stronger” by now; instead, the impasse between Progressive and moderate Democrats (with little help from Republicans) has allowed the United States to keep unraveling like the British Empire in the late 1930s (and in some ways like the late 1850s).⁵⁷

We must confront the hard facts of America’s current strategic reality: rebuilding the nation’s strength will take many years and that process must start long before the Axis amasses its forces to threaten an invasion of our key Allies or the continental United States and long before empty shelves and rising prices push US voters toward autocracy (which could come from both the left or right wings of American politics). I do not have a crystal ball and cannot predict exactly what will happen in the coming years, but I believe the lag time to repair the USA’s strategic position appears to be as long as a decade based on certain known bottlenecks.

As far as I know, the United States has not been in such a dire strategic pinch in its history. Because of our complacency as a nation, **Beijing now has considerably more leverage over the United States than Moscow ever did -- and, presumably, a limited timeline to use that leverage now that more Americans are pushing to close the gaps in the manufacturing base.** I do not believe the emergence of such gaps was an accident and therefore **do not believe China intends to waste the greatest strategic opportunity the United States has ever presented to a Communist rival.** Thus, the pressure is on for American fiscal authorities, investors, industrialists, and workers to (1) close China’s window of opportunity as quickly as possible and (2) do what we can to resist the political challenges that supply chain attacks can induce if properly timed with the US election cycle to push extremists and wannabe autocrats into the highest offices of the land.

Lend-Lease 2.0

As refreshing as it has been to see a bipartisan group in the House and Senate passing the Ukraine Democracy Defense Lend-Lease Act of 2022, which Senator John Cornyn introduced in January 2022; and as inspiring as it has been to see President Biden invoke the USA’s WWII role as the Arsenal of Democracy upon signing the bill and reviving the Lend-Lease framework suggested by Churchill and sold by FDR to a cautious Congress in 1941; I’m troubled to see so many policy elites in Washington DC acting as if they are supporting Ukraine with limited funding in a limited war. **Whether they realize it or not, Congress has committed the USA’s industrial might against the Axis and may have to explain to the world in some future crisis why the United States cannot keep that commitment if and when the Axis calls their bluff.** Instead of building the USA’s defense capacity up, the revival of lend-lease draws it down.

⁵⁷One caveat is that President Biden may be explicitly supporting the weaponization of Fed policy as a plausibly deniable way to inflict extreme damage and perhaps even a knockout blow to the Chinese Communist Party; to be fair, this could possibly explain why the President is currently dragging his feet.

While Lend-Lease became law in 1941 with the original intent of supporting Britain in the European theater and China in the Pacific theater, the FDR administration extended Lend-Lease aid to thirty-six countries in the course of fighting World War II. The recent legislation does not provide the same broad blanket authority for the President to extend aid in the form of food, clothing, raw materials, and military supplies to any country deemed vital to the defense of the United States and yet I think it's revival sends a signal to the rest of the world that the United States is still willing to, in the words of President Kennedy, "pay any price, bear any burden, meet any hardship, support any friend, [and] oppose any foe to assure the survival and the success of liberty".⁵⁸ That is a tremendous commitment to keep given the nation's current strategic position. Kennedy made such commitments from a position of comprehensive national strength; we now make them from a position of weakness that may span the terms of at least three Presidents, if not more. I believe the Lend-Lease Act of 2022 should be backed up with a more ambitious fiscal agenda to underwrite those commitments in the months and years ahead.

I agree with economic historian Dr. Adam Tooze who, in a recent article, explained the passage in 1941 of "Lend-Lease was the decisive moment in which the US, while not a combatant, abandoned neutrality" and that it's revival in 2022 signals "**we are financing nothing less than a total war**".⁵⁹ In a more detailed SubStack essay, Tooze further noted, "**Lend-Lease tied together the separate struggles in Europe and Asia to create, by the end of 1941, what we properly call WWII.**"⁶⁰ Ukrainian President Volodymyr Zelensky appears to recognize that escalation while also noting the hesitance of the major democracies to do more. His rhetoric has notably escalated as well from insisting that World War III "may have already started"⁶¹ to appealing not only on Ukraine's behalf but on behalf of Taiwan⁶² -- in a sense calling the United States' bluff even before the Axis.

Meanwhile, the Arsenal of Democracy is being tested. Dr. Hal Brands, a Bloomberg Opinion columnist, American Enterprise Institute scholar, and Henry Kissinger Distinguished Professor at Johns Hopkins University's School of Advanced International Studies seems to agree. In his April 14, 2022 article ("[Ukraine War is Depleting America's Arsenal of Democracy](#)"), Dr. Brands warned "that [depletion of US made arms ready for export] could cause a fatal shortfall for Ukrainian forces in this conflict and... reveal American weakness that could be laid bare in the next great-power fight... This is presenting Western countries with a stark choice between pouring more supplies into Ukraine or husbanding finite capabilities they may need for their own defense." Further, Dr. Brands noted, "During World War I, the offensives of 1914 led to 'shell famine' as the European combatants exhausted their arsenals. Get ready for 'missile famine' if there is a great power war."⁶³

⁵⁸[President John F. Kennedy's Inaugural Address, January 20, 1961.](#)

⁵⁹[Is escalation in Ukraine part of the US strategy? | Adam Tooze | The Guardian](#)

⁶⁰[Adam Tooze, Chartbook #119: Lend-Lease & Escalation](#)

⁶¹[Zelensky: World War III 'may have already started' | The Hill](#)

⁶²[Zelensky calls for international support for Taiwan before China attacks - The Washington Post](#)

⁶³[Ukraine War Is Depleting America's Arsenal of Democracy - The Washington Post](#)

These are not hypothetical concerns. Raytheon⁶⁴ CEO Greg Hayes recently warned the mega-cap defense contractor could take up to two years to redesign and produce new Stinger anti-aircraft missiles due to a shortage of parts and materials.⁶⁵ Outside observers also suggested the lack of high-skilled labor is a major obstacle to the mass manufacture of Stingers as they must be manufactured by hand.⁶⁶ **I've been watching for a headline like this for several years and, now that it's here, I fear shortages of parts, materials, and skilled labor could become a recurring problem for many defense contractors in the years ahead.** As in the 1940s, such shortages could end up shutting down consumer factory production for a prolonged period of time.

As I understand it, the United States has already been depleting much of its older stock of weapons (like Stingers) supplying Ukrainian forces and has started sending newer hardware (like advanced rocket launcher systems) as reports from the Ukrainian front lines suggest munitions are already running low.⁶⁷ With all that in mind, the failure thus far to mobilize at scale with Congress' apparent bluff already being called is the stuff of nightmares. What happens if Russia expands its campaign to take more of Eastern Europe (with the aid of other Axis regimes)? What happens if China takes advantage of the escalating war in Europe by invading Taiwan? Or if Iran attacks Israel or Saudi Arabia? Or if Turkey invades Greece's Aegean islands? Or if North Korea launches missiles at South Korean or Japanese cities? Or if Mexico, Venezuela, Cuba, or Nicaragua allow Axis forces or proxies to threaten the USA from their territory? A number of these scenarios could quickly come into play individually or all at once. What then? Recalling another lesson from Britain's experience in WWII, the United States has the fiscal runway to act today, but no assurance that runway will remain if and when the war enters a new phase.

The prospect of Russia sustaining its war in Ukraine or having the resources to expand its military aggression in Europe may sound ridiculous to some -- especially in light of the extensive US support for Ukraine to date. But Russia is clearly not operating on its own and is not the only potential aggressor capable of putting our production capacity to the test. China has not publicly stated plans to provide Chinese military equipment or supplies directly to Russia or other Axis regimes; however, the probability of such assistance increases as China reduces its economic and financial exposure to Allied sanctions and as the Allies continue to demand a total victory in Ukraine. If Chinese factories join the war, I fear the tide could turn hard against the Allies.

In contrast, **China's industrial capacity is now vastly better suited to step up as the "Arsenal of Autocracy" and turn the tables on the Allies by supplying the Axis regimes with Chinese-made arms in their own answer to Lend-Lease.**⁶⁸

⁶⁴Corriente Advisors does not currently hold a long or short position in Raytheon, but may in the future. This is not investment advice.

⁶⁵[Raytheon CEO warns of delays in Stinger missile production | The Hill](#)

⁶⁶[Facing obsolete parts, Raytheon struggling to replace Stingers sent to Ukraine - Breaking Defense](#)

⁶⁷[As ammunition runs out, Ukraine's hopes dim on eastern battlefield - The Washington Post](#)

⁶⁸This is particularly true if China can develop or otherwise procure an adequate capacity of semiconductors (its most significant production bottleneck for high tech arms and products, to my knowledge), fuel to power its economy, and food to feed its workers. A steady stream of slave labor to maintain productivity even at high mortality rates (as demonstrated in Nazi work camps in the 1940s) could also sustain China's war economy for longer than most macro-observers seem to realize.

In my opinion, the more likely China thinks it can achieve its military objectives in a short period of time and/or expose the inability of the United States to deter and/or defend against Axis aggression targeting its Allies, the more likely it is to be emboldened to act on this prospective production imbalance.

Alex Vershinin just published an article ([“The Return of Industrial Warfare”](#)) via the Royal United Services Institute which hammers this point home⁶⁹: **“The winner in a prolonged war between two near-peer powers is still based on which side has the strongest industrial base. A country must either have the manufacturing capacity to build massive quantities of ammunition or have other manufacturing industries that can be rapidly converted to ammunition production.** Unfortunately, the West no longer seems to have either... The Russian onslaught consumes ammunition at rates that massively exceed US forecasts and ammunition production. For the US to act as the arsenal of democracy in defense of Ukraine, there must be a major look at the scale at which the US organizes its industrial base... The West must assume that China will not allow Russia to be defeated, especially due to a lack of ammunition.”⁷⁰

Especially if the United States is going to uphold these expanded commitments and go the distance in defense of democracy abroad, we must urgently do more to mobilize on the home front in preparation of a larger scale war in multiple theaters -- and at a massively greater scale than most macro-observers realize is necessary. I believe that means America needs massive fiscal authorization to rebuild complete supply chains from raw materials to finished products while simultaneously playing for additional time. The point is not to rush into war, but to regain the level of national and Allied strength necessary to deter a larger war, defend the rules-based international order, and defend the freedom and sovereignty of the United States.

“Addressing [America’s deindustrialization and dependence on foreign factories and resources] will require an American solution that transcends party lines,” writes Jacob Helberg, a Senior Advisor at the Stanford University Center on Geopolitics and Technology, adjunct senior fellow at the Center for a New American Security, and author of the book [The Wires of War](#). **“It will require an extensive collaborative effort between the government and private sector to take inventory of the products salient to national security -- determining which high-tech and vital goods must be produced domestically, which can safely be sourced from allies and friendly democracies, and which can still be imported from the global market, including from authoritarian states like China.** Carrying out this strategy and operationalizing it will take time and substantial resources.”⁷¹

⁶⁹Alex Vershinin’s article was published on June 17, 2022 just as we were preparing to format and publish this essay. If you have any doubt as to how real or imminent the threats I describe in this paper are as of early June 22, 2022, please make sure to read his alarming article.

⁷⁰[The Return of Industrial Warfare -- Royal United Services Institute](#)

⁷¹[New Cold War With China Demands Radical Industrial Rethink for United States -- Foreign Policy](#)

As in WWII, I believe war production may now need to take priority over the manufacturing of consumer durable goods (like autos and appliances) and that American companies should be incentivized and given technical assistance to build massive stockpiles of everything US and Allied forces could need to uphold our commitments in a great power war. That may seem extreme to those who think we may still avoid a world war with China and Russia. I imagine similar calls to action sounded extreme to many British subjects who felt more secure after Chamberlain's appeasement at Munich⁷² or who, still seeing Europe's problems as mostly economic, proposed lending Germany the capital to convert its war economy back to peaceful production in 1939.⁷³ Still, the unacceptable alternative could be finding ourselves in a similar position as Britain in 1940 and few realize how close we already are to such a crisis.

Can the Fed Smash the Axis & Help Congress Build Back Stronger?

Unless further kinetic or other competitive escalation spurs Congress into action, **I believe a breakthrough on the fiscal front in time to make a difference in this war largely depends on the Federal Reserve. I also think the Fed could play a decisive role in weakening the Chinese Communist Party's grip on power with the potential to deliver a knockout blow in the quarters ahead.** As such, I've been operating under the assumption (and advising my partners) that the Fed may tighten harder and faster than the Fed's dual mandate might imply.

While it is common knowledge in the investment industry that the Fed's actions should always be understood in the context of (i) the dual mandate Congress has given it (i.e., the simultaneous pursuit of full employment and price stability) and (ii) Congress' tradition of allowing the Federal Open Market Committee the institutional independence it needs to pursue these goals, the historical record shows that virtually every Fed chair since World War I has been called on to accommodate the USA's larger geopolitical interests. Most explicitly, during both WWI⁷⁴ and WWII⁷⁵, the Fed was forced to support wartime fiscal expansion with accommodative monetary policy and inflation was allowed to run above target until Allied victories were secure. These Fed-Treasury accords were not publicly announced; but the historical record of the Fed's institutional capture is exceedingly clear.

I believe something similar has been happening since the spring of 2020, with Chairman Jerome Powell effectively playing second fiddle to Treasury Secretary Steven Mnuchin in 2020 and now to Treasury Secretary Janet Yellen since 2021. Some may see this kind of policy coordination as scandalous, but I think it's entirely appropriate in light of the USA's current strategic position. Chairman Powell and his fellow FOMC voters wield immense power in easing AND tightening monetary policy, especially when coordinated with other governments and central banks.⁷⁶

⁷²Why England Slept, p 162

⁷³Why England Slept, p 207

⁷⁴[The Federal Reserve's Role During WWI](#)

⁷⁵[The Federal Reserve's Role During WWII](#)

⁷⁶This is an idea for a future publication, but I believe the significant weakening of the Japanese yen in recent months has taken place with the US Treasury's blessing.

While I believed in 2020 that the Fed would stay easier for longer than the market expected, I changed my view in mid-2021 recognizing the failure of fiscal authorities to deliver the necessary wartime investment which in turn forced the Fed into a different posture as inflation accelerated. Aggressive Fed tightening from this point forward (if not interrupted by a fiscal breakthrough in the US Congress or some kind of de-escalation deal with one or more of the Axis regimes) will almost certainly take a heavy toll on the world economy and global financial markets. I certainly see the argument that the Fed has already achieved the sharpest tightening in modern history and already sowed the seeds of recession. Still, the “persistence” of US inflation (i.e., a measure showing how inflation pressures carry over into the following months, calculated by Michael Howell at Crossborder Capital) is already back to its pre-Volker peak and continues to climb -- suggesting the Fed is at risk of losing control if it does not withdraw US dollar liquidity even more aggressively in the months ahead.⁷⁷

It's possible the Fed's hiking cycle could be interrupted by a geopolitical deal or de-escalation before the G20 summit in Bali, Indonesia in October 2022 and the US midterm elections and China's 20th Party Congress⁷⁸ in November 2022 -- which the Biden administration does appear to be seeking. Perhaps such a move could be justified by front-loading aggressive tightening now with more rapid run-off of the Fed balance sheet or a series of large (75 to 100 bps) hikes in the next few meetings before pausing. My guess is that, as global and US economic growth contracts in the second half of 2022, it becomes a lot clearer that this inflation is primarily being driven by supply-side shocks and not an incipient wage-price spiral.

Still, the Fed will likely continue to tighten until recession and/or Axis escalation forces Congress to step up to the plate with fiscal stimulus. Chair Powell recently demonstrated (as clearly as I've ever seen from him) that he understands his wartime role with out of character comments at the annual IMF meeting in Washington DC on April 21, 2022: **“We are unified w/ our Allies around the world in opposition to the invasion of Ukraine for no reason and for the suffering that's going on there. And while these economic matters are important, there are very fundamental things at stake there.”**⁷⁹ On that same panel, when asked if globalization is set to reverse, he noted, “I think you've seen questions about globalization & this series of events about Ukraine certainly has the possibility of leading to a more fragmented political situation & economic situation. You saw Secretary Yellen's speech this week about looking to... 'friend-shoring', so I think there's a lot of thinking going on like that. The globalization we had had benefits to it & it had costs involved in it. These are really questions more for elected governments than they are for a central bank, but there would certainly be a different world. It would be a world of perhaps higher inflation, perhaps lower productivity, but more resilient, more robust supply chains. The supply chains we had were quite efficient, but quite fragile, it turned out.”

⁷⁷[Crossborder Capital tweet on May 31, 2022.](#)

⁷⁸[China to hold party congress in November: report - Nikkei Asia](#)

⁷⁹[Federal Reserve Chairman Jerome Powell's comments at the IMF & World Bank Spring Meetings, April 21, 2022.](#)

Powell has continued to avoid making concrete recommendations but has noted the Fed cannot control the supply side of the equation (as only Congress and the White House can) and will, one way or another, take the necessary action to bring demand back in line with supply. His language has been cryptic, but I see several specific reasons for the Powell Fed's current hawkishness which may provide some clues about the path ahead.

First, by destroying domestic economic demand and tightening credit conditions at home, **the Fed is using its blunt policy tools to bring US demand back in line with US supply and reduce the annual rate of inflation.** As Chairman Powell has explained, the Fed doesn't have much choice but to destroy demand in the absence of significant capacity-building investments -- which it does not have the power to authorize. The Fed has an important mandate to keep inflation expectations anchored and must act accordingly if Congress fails to do its part. The alternative is flooding the world with US dollars, undermining the world's faith in the dollar as the dominant reserve currency, and enabling further fiscal inaction.

Second, by destroying global economic demand and squeezing US dollar liquidity abroad, **the Fed is imposing considerable cost on China**, whose economy continues to suffer from the impact of Xi's "zero-COVID" lockdowns and can now expect both a shrinking trade surplus with the United States and shrinking foreign exchange reserves as capital outflow pressures build. If the Fed continues down this path, the prospect of global recession may likewise break the oil market and impose considerable cost on Russia, which has thus far avoided much of the intended pain of Allied sanctions. **While inflation is high, the Fed's dual mandate offers the USA a tremendous asymmetric weapon with the benefit of plausible deniability.** We shouldn't be surprised to see them use it given the current circumstances. If the Fed stays the course or gets pushed into a more hawkish stance by climbing inflation prints (as it has with the May 2022 inflation rate coming in at 8.6%⁸⁰), **it could induce a collapse of the yuan versus the US dollar, a collapse in China's economy, or even the collapse of the Chinese Communist Party.** While there will be immense collateral damage throughout the rest of the world, I believe countering Axis hostility with the US dollar wrecking ball is preferable to the likely alternative of kinetic conflict in multiple theaters, unprecedented famine until world order and production is restored, and perhaps even large-scale nuclear war.

Third, by likely bringing on a recession in the next six to 12 months, **the Fed is creating the conditions for Senator Manchin⁸¹ and certain moderate Republicans to relent on their opposition to further fiscal expansion.** The more aggressively the Fed hikes and/or runs down its balance sheet, the more likely Congress is to pass meaningful legislation that rises to the moment -- likely requiring an eventual (and possibly aggressive) Fed pivot to keep the US Treasury yield curve anchored while Congress runs wartime deficits. I don't mean to imply that the Fed is inappropriately bullying Congress into advancing any specific agenda.

⁸⁰[US Bureau of Labor Statistics: Consumer prices up 8.6 percent over year ended May 2022](#)

⁸¹[Why I Won't Support Spending Another \\$3.5 Trillion | U.S. Senator Joe Manchin of West Virginia](#)

On the contrary, I think it's clear that, by stabilizing the US economy and financial markets, the Fed has repeatedly created the conditions where Congress has NOT felt compelled to do its job even as America's relative strength unravels in the face of historic crises. Elected officials appear to be far more motivated to compromise with their political opponents and pass meaningful legislation in periods of economic and financial market turmoil when their constituents and donors expect action. **In addition to directly aiding the war effort (and compensating for the now constrained Arsenal of Democracy), the Fed's decision to withdraw liquidity and destroy economic demand (at a time the inflation data demands aggressive action) is simply putting the onus on elected officials** in the House and Senate to do their collective jobs and pass legislation the President can sign. **Importantly, we may need to see inflation give way to deflation before that can happen.** If the Fed relents at an inflation rate above 2% and stops short of breaking Beijing, and if the Axis does not escalate in broadly recognized way that galvanizes a unified response, Congress may not feel so compelled to act.

Assuming my thinking about the strategic necessity of a fiscal super-cycle in the midst of an escalating WWII is correct, I believe Secretary Yellen and Jerome Powell (and the other FOMC voters) are behaving exactly as they should be at present. **The cost of the current tightening cycle may well be a painful recession, and the cost of subsequent Fed easing to underwrite a fiscal supercycle (as in WWI and WWII) may well be a temporary return to high inflation (until capacity and productivity-building measures kick-in), but national security and resilience has to take priority over the dual mandate.** Moreover, the impasse between moderates and Progressives at a time the United States should be rapidly mobilizing on a larger scale than World War II (given severe offshoring-induced holes in the US industrial base which did not exist in the early 1940s), does not leave the Fed much choice. Without more aggressive Fed tightening now and without a major fiscal breakthrough to make the right investments in America's future in the quarters ahead, I expect inflation will likely continue to drift above target as US strength erodes, supply chains continue to fail, and the Axis regimes use their leverage. As Powell suggested in 2020, the White House and Congress need to "think big"⁸² with a focus on investing in productivity, security, and resilience as opposed to wasteful social engineering and entitlement payments.

Deal or No Deal?

Given the high correlation between stock market performance in the months prior to US elections and the outcome of those elections and, given a series of recent comments by US Trade Representative Katherine Tai⁸³, US Commerce Secretary Gina Raimondo⁸⁴, US Treasury Secretary Janet Yellen⁸⁵, and President Biden himself about the prospect of "reconfiguring" the tariffs imposed by President Trump, I am growing more concerned by the day that some kind of deal with China may be coming.

⁸²[Powell urges Congress to unleash 'great fiscal power' to defeat coronavirus, repair economy -- The Hill](#)

⁸³[USTR Tai says fighting inflation more complex than cutting China tariffs -- Reuters](#)

⁸⁴[Lifting Tariffs on Goods May Make Sense, US Commerce Chief Says - Bloomberg](#)

⁸⁵[US Is Looking to 'Reconfigure' China Tariffs, Says Yellen - Bloomberg](#)

America's economic policymakers have been trading future security for current stability for far too long and cannot afford to delay rebuilding the USA's resource and manufacturing independence. The President also cannot afford to rush headlong into direct kinetic war with the country unable to bear one or more large-scale military campaigns. **And yet abandoning Ukraine, Taiwan, and other free nations under fire would badly damage the USA's prestige and the perceived quality of its commitments to Allies and partners around the world.** It's an ugly Catch-22, which I think is best addressed at present via the "unintended" spillover effects of the Fed focusing on its domestic inflation-fighting mandate (i.e., wrecking China's economy via Fed tightening). Removing tariffs now would soften a necessary blow to an enemy system.

In my opinion, **the way forward for the USA is not preserving the status quo or negotiating better terms of trade with a hostile China, but in slamming Beijing hard enough to weaken its grip on power and limit its future range of action. Meanwhile, the USA must spare no expense in rapidly expanding domestic production and stockpiles of critical raw/processed materials and strategic goods.** Only then can we restore deterrence below the threshold of nuclear war, which has clearly broken down with Russia's invasion of Ukraine and could snowball as the Axis regimes look to expose and exploit the USA's strategic vulnerability.

That said, my opinions about what the administration should do differ at times from my observations of what the administration is doing. In this case, I do see the makings of a potential compromise. While I am not favor of abandoning Ukraine or leaving it to accept a negotiated settlement in which Russia is rewarded with part of Ukraine (as Hitler was with part of Czechoslovakia in 1937), I recognize the pressure from some US Allies (including Germany and France) is growing and President Biden's recent comments about the likely eventuality of a Ukraine-Russia settlement seem to indicate he is paying attention.⁸⁶ Further, the idea seems to be gaining traction that détente with the Axis regimes could help to bring inflation under control faster and even give the Fed a reason to hike less aggressively than the market expects or pivot more quickly to limiting the domestic impact of the coming recession in the months before the 2022 midterm elections.

As historian Dr. Niall Ferguson argued in a recent op-ed ("[Dust Off That Dirty Word Détente and Engage with China](#)"), such measures could mean removing tariffs on China and ending the trade war, seeking China's help in pressuring Putin to the negotiating table, and applying joint US-China pressure on Arab oil producers to increase production.⁸⁷ The possibility of a Fed pause ahead of midterms (absent the obvious signs of recession) seems to be fading fast with inflation continuing to surprise to the upside with the latest 8.6% headline CPI print, but so too does the Biden administration's desperation as Democrats openly talk of opposing a Biden reelection bid in 2024.⁸⁸ I disagree with Dr. Ferguson on a critical point; while thinks Biden is too ideologically committed to containing China and is therefore unlikely to commit to a détente strategy, I fear the President is not committed enough (as evidenced by the lack of a major pivot in the administration's legislative priorities⁸⁹).

⁸⁶["Biden says Ukraine might have to give Russia land" --- NY Post](#)

⁸⁷[Niall Ferguson: On China, Biden Should Dust Off the Word Detente - Bloomberg](#)

⁸⁸["Should Biden Run in 2024? Democratic Whispers of 'No' Start to Rise" -- New York Times](#)

⁸⁹[Biden eyes deal as Manchin resists clean energy incentive - E&E News](#)

Rather than trying to salvage his chances at reelection, I believe Biden should accept his role as a one term President and focus on salvaging his legacy. **Biden can be the President who took down Vladimir Putin and Xi Jinping; he can be the President who bought time and set the USA on the path to rebuilding its strength and upholding its values; or he can be the President who let his country unravel in its darkest hour.**

Deglobalization as a Mega-Investment Theme

So, what does all of this mean for major economies and financial markets? I'll start outside the United States, where I think growth opportunities are a lot less compelling. I'm going to focus on mapping out some high-level thoughts in this issue and save specific themes and ideas for later issues (which will be reserved for our members).

It should come as no surprise that I'm not interested in betting on China, the other Axis economies, or other economies that depend on Chinese demand. I think China is a highly leveraged demographic dumpster fire in the process of a secular unraveling. I expect China's economy and social order will probably collapse under its own weight in the coming years; however, I should note many macro-observers expected the Nazi economy to collapse under a high debt burden in the 1930s and were shocked to see Germany extend its economic runway by conquest, slave labor, and military technological advantage. The Chinese Communist Party appears to be using a similar playbook, so we can only hope Xi's war machine will hit a wall before it can secure a longer runway to challenge the USA and our Allies more ferociously. Communist China is no longer the growth story of the future; it's the story of the past and it's time to move on.

I believe "emerging markets" are generally in the Fed's firing line with the prospect for some BIG balance of payments blow-ups over the next six months. However, **the medium-term fortunes of various economies and markets will likely depend more on how they fit into regional trading blocs as the global economy continues to fracture along geopolitical and geoeconomic fault-lines.** Expect winners and losers over the next few years -- but more losers than winners while the Fed is squeezing. As liquidity rebounds, I expect to find opportunities in developing economies that become integrally linked with the major Allied trading blocs and believe certain markets traditionally driven by Chinese commodity demand (e.g., Brazil or Chile) can become beneficiaries of the American fiscal supercycle.

I'm far more interested in the New World (i.e., the Western Hemisphere and the frontiers of space and cyberspace) versus the Old World (i.e., the Eastern Hemisphere). A lot of investors and executives believe India is the next China, but I think India has missed its development window (as my close friend Vikram Mansharamani outlined in the second edition of his book, [Boombustology](#)²⁰).

²⁰[Mansharamani, Vikram. Boombustology, 2nd edition. Hoboken, NJ, John Wiley & Sons, Inc, 2019.](#)

While India may temporarily be in a position to extract concessions from both Allies and Axis, New Delhi's refusal to isolate Russia since February 2022 may be squandering its opportunity to align with other members of the Quad and Indo-Pacific Allies. There may be more compelling opportunities centered around Japan, Southeast Asia, and Australia (along with support from the UK and USA), but **the security of two vast oceans and proximity to US could help the Americas stand out as a more attractive haven for economic growth in the 2020s and 2030s.**

French Resistance leader and President Charles de Gaulle once said, "Brazil is the country of the future... and always will be." That sums up my judgement toward most of Latin America at present given the weakness of the world economy and the region's pending realignment from heavily reliance on Chinese demand to heavy reliance on US end markets. If the United States can find a way to restore its economic vitality in a deglobalizing world and improve its relationship throughout the region (as advocated by Eisenhower, JFK, and Reagan), I expect some tremendous growth stories in Latin American economies to take hold later in the 2020s. I think Mexico could be one of the most exciting of such growth stories once Andres Manuel Lopez Obrador is out of office. We'll have to wait and see who replaces him in 2024, assuming he does not engineer a second term for himself. I have similar concerns for Colombia in light of leftist and former guerilla fighter Gustavo Petro's election on June 19.

While I see the potential for the combination of a US fiscal supercycle and highly accommodative wartime Fed monetary policy can sustain some robust growth trends in the years ahead, **I think the pending global recession and larger deglobalization trend are now driving a brutal bear market similar to the Dot Com bust of 2000 and the global financial crisis of 2008.** How much broad market indices sell off from here likely depends on the inflation, monetary and fiscal policy, and geopolitical backdrops, but it is worth noting the Fed's hiking cycle to date has already been one of the greatest wealth destruction events in modern history. Amid the sell-off, we're seeing incredible dislocations in which nascent industries not yet represented in major indices have sold off with little regard for company fundamentals. At the same time, bloated stocks in major indices are holding up much better than their fundamentals might suggest and despite increasingly apparent risks to their bottom lines. My partners and I will be watching economic data, credit spreads, equity market charts, volume and other technical indicators, liquidity data, and sentiment surveys for any surprises which will eventually lead us to revise our market views. In the meantime, it will take a lot (from the Fed, in particularly) to make us think sharp rallies are anything other than countertrend moves in the course of a wartime bear market.

An interesting parallel that has captured my attention for the last several years (since I recognized similar processes unfolding as those which led to the second world war in the 1930s) is the price behavior of British and American equities in the early chapters of WWII.

For those interested, in his book ([War, Wealth, and Wisdom](#)), Barton Biggs did a remarkable (albeit somewhat incomplete⁹¹) job of detailing the behavior of these markets and many of the geopolitical reasons for different rallies and sell-offs in the late 1930s and early 1940s. I won't go into all of the details now but will simply note that both markets sold off significantly as the Axis became more overtly belligerent and especially as Nazi forces stormed across Western Europe. In particular, I suspect the hard sell-off in British equities (-53%) from 1937 to 1940 reflected the breakdown of "global Britain" at a time when the UK as a whole was in a similar strategic pinch that the United States is in today and in which companies that failed to advance deglobalization strategies before the war were caught in the firing line.

I believe the easy growth of globalized production with long, vulnerable supply chains running through enemy territory, and the corporate obsession with courting the next marginal buyer in far flung foreign markets, is likely ending -- forcing a huge number of large-cap product design and manufacturing companies to refocus their business models on American and Allied markets with smaller populations. This process could be extremely negative for large-cap equities which are leveraged to globalization, forcing them to accept higher labor and commodity costs (at least initially) and undertake substantial CAPEX to build out factories across North America. Accordingly, the reshoring growth story may be mostly in ancillary industries including construction, raw and processed materials, railroads, trucking, regional seaborne shippers, machine tool and other capital goods manufacturers, and sectors that benefit from the substantial increase in working class jobs that pay a living wage. This should be an exciting area to watch and figure out who the winners and losers will be as the story evolves.

While commodity producers and processors could see stock price drops in the event of a bad recession in the next year or two, the logic of ancillary beneficiaries applies potentially even more powerfully to commodity businesses. I am particularly interested in resource companies with operations concentrated in the Americas and other Allied regional markets which may be called on to supply and process the resources needed to upgrade US infrastructure, rebuild the US manufacturing base and ramp up production, and respond to the needs of starving people caught in the crossfire of the escalating war. **Despite the growing risk of global recession in 2022 and 2023, resources in Allied markets** (including fossil fuels⁹², industrial metals, battery metals, rare earths, food, fertilizer, etc) **could be in a sweet spot over the next decade or two and could be the stand-out story similar to software in the 2010s.**

⁹¹I refer to Mr. Biggs' analysis as incomplete because I specifically think he overlooked the role the high savings rate played in both British and American equity markets and which the highly accommodative Fed played in the US market melting-up as the war unfolded.

⁹²Whereas humanity still needs to transition away from dirty forms of energy like oil and gas, I can't help but think the patinas (i.e., the way investors and society at large feel about the stocks) of fossil fuel producers have improved as more people realize they remain critical to the functioning of American society and to continuing progress toward cleaner forms of energy production over the long term.

It is harder to create wealth by building new capabilities in the real world versus labor cost arbitrage, selling the same products on all six continents, or scaling up software businesses that do not necessarily deliver material or sustainable progress. Over a longer time-horizon, **I'm particularly interested in cheap American small and medium-cap companies with minimal exposure to globalization, robust fundamentals, and domestic supply chains** -- to the extent such themes can be found. **I'm also excited by powerful brands seeking to build deeper engagement with long-neglected American consumers and/or technology businesses which attack the greatest problems facing American society in the 21st century with big total addressable markets.**

As this period of painful adjustment continues, I expect the margin impact of forced deglobalization will spur a number of large American multinationals to reinvent themselves for the new geoeconomic order. Some will gain a second wind; others will disappear. As the bottleneck on materials and manufacturing ease, I believe we could see a huge CAPEX cycle focused on the automation and decentralization of factories and homes. I also expect rapid progress in machine learning to unlock an age of miracles, solving problems humans have never been able to solve before, delivering huge advancements in American technology, and unlocking tremendous wealth as long as American businesses take the proper steps to protect their intellectual property, and Congress takes the necessary steps to make sure innovative business want to remain in the US. (I intend to write a lot more about American industrial policy and how the United States can win the industries of the future in subsequent issues of Camelot Macro's private briefing, so stay tuned.)

The Future of American Manufacturing

Venture capital investment in American manufacturing has been dismal in recent years with total annual manufacturing investment growth averaging around 1-2%,⁹³ but these necessary investments may finally be accelerating in 2022. I believe substantial profits can be earned via efforts to rebuild American and Allied resource and industrial bases if investors and business managers are thoughtful in where they put capital and efforts to work. Initially, a lot of the commercial incentive to invest in US-based manufacturing will be greatest for large-cap corporations who were previously leveraged to globalization and want to continue selling products to US customers while reducing the risk of supply disruption. Such corporations will likely resist change in terms of manufacturing methods and will have to accept tighter margins (which may also mean much lower stock prices). **This reshoring process can be accelerated in the event US fiscal authorities authorize funding for the necessary expansion in factory and resource capacity necessary to the war effort, which may also help to cushion the margin hit to reshoring multinationals.**

⁹³[McKinsey: US manufacturing. Building a more competitive sector](#)

For similar reasons, many companies will also likely respond to the existing incentives to “near-shore” or “ally-shore” factories elsewhere in the Americas where labor costs are lower and can more easily keep them in the game without destroying consumer demand.⁹⁴ In many cases, allowing hemispheric labor arbitrage for less strategic products is clearly in the interests of the American consumers who can expect to benefit from lower prices greater regional stability.

As I’ve noted in this essay, I believe the era of rising prices and widespread shortages that began with the pandemic and lockdowns in 2020 is virtually certain to intensify over a matter of years -- especially if the world war continues to escalate. **We could see more extreme shortages and even production halts in a wide range of goods ranging from automobiles and appliances to smart phones and computers -- especially if those factories are converted to serve the war effort like in the 1940s.** As the parts required to fix everything from air conditioners to power plants become scarce, the convenience and function of modern American life could erode significantly until we restore the ability to make those products in our home hemisphere. On the bright side, I expect these hardships will accelerate the additive manufacturing revolution with entrepreneurs like Kevin Czinger⁹⁵ unlocking tremendous productivity gains, production flexibility, and in some cases drastically reducing the carbon emissions of the durable goods we consume. I am particularly looking forward to a future in which a substantial amount of US manufacturing is made on-demand in facilities co-located with distribution warehouses or even manufactured in delivery drones on their way to the consumer.

As MIT technologists Eric Brynjolfsson and Andrew McAfee noted in their book ([The Second Machine Age](#)), **offshoring is ultimately “a pit-stop on the road to automation.”** While geopolitics and prospective changes in climate and weather patterns now urgently necessitate a reorganization of the world economy into regional supply chains and trading blocks, technology is steadily marching toward that same regionalized (and, eventually, localized) future over a slightly longer time-horizon. **As companies look to re-shore their production and build new factories in the USA, across the Americas, and also in other regional Allied blocs (to help serve those markets and diversify Allied production), they will be incentivized to automate as heavily as possible.**

The trouble is, some of the same materials (e.g., rare earths) which are needed in mass quantities to build robot and additive manufacturing revolutions are also needed to revive the Arsenal of Democracy and build the infrastructure and platforms for a greener energy future. **As such, the mass adoption of robotics in American industry and society may have to wait a decade or so until the competition with higher national priorities eases and the resources needed to build that future become more readily available.** That famous William Gibson quote (“the future is already here -- it’s just not evenly distributed”) could become particularly applicable as the 2020s unfold.

⁹⁴[Mexican Factories Gain in Supply-Chain Revamps - WSJ](#)

⁹⁵[Kevin Czinger on Dematerializing Auto Production, June 25, 2015.](#)

“Winning” the Infinite Game

A [10 minute YouTube video](#) featuring author and popular TED speaker Simon Sinek (and Sinek’s corresponding book, [The Infinite Game](#)) fundamentally changed my views on American grand strategy a couple of years ago, prompting me to shift my focus from “winning” the war to countering and outpacing the Axis with an infinite mindset.

The game theory framework Sinek applies and popularizes in his book completely reframes the conversation of how the United States should proceed. A finite game consists of known players, fixed rules, and agreed upon objectives; whereas an infinite game consists of known and unknown players (which continually emerge as the game draws on), rules which frequently change, and no clear objective except to keep playing the game. Finite games have winners and losers, whereas the only way to lose an infinite game is to run out of the resources or will to keep playing. Business, investing, and life are all infinite games; so is grand strategy.

The United States did not “win” the Cold War when the Berlin Wall came down in 1989 or the USSR formally dissolved in 1991. The Soviet Empire found itself drained of resources from its war in Afghanistan and on the verge of default as pro-democracy movements in the satellite-states of Eastern Europe rejected Soviet rule. **Thinking we had won the Cold War because the Soviets had fallen out of the game was one of the core mistakes that led to the erosion of our relative strength versus a rival most Americans had overlooked.** Yes, the United States (in part because of its engagement with China) played an important role in containing the USSR’s expansion until its political and economic systems collapsed; but the game did not end. While the USA proceeded to act like it had won the game -- that history had ended⁹⁶ -- and could therefore impose its will on the world with rampant financialization, globalization, and, especially after 9/11, surveillance and militarization, China stepped into the vacuum the Soviet Union had left and proceeded to turn the tables on the greatest power the world had ever known.

Had the people and government of the United States realized how quickly and severely our fortunes could change, we might have done more to reign in the business elites who profited so handsomely from globalization. We might have been more vigilant in maintaining our comprehensive power as advocated by Washington, FDR, JFK, and Reagan. We might have been more concerned with maintaining the power of our example as the world’s oldest democracy and the land of opportunity in which every citizen had a fair shot at the American Dream. In doing so, we might have avoided the rise of China at the USA’s expense and the disastrous wars of the 2000s in which the US relinquished so much of its moral authority on the world stage and validated the growing skepticism of our own citizens. We might have taken more decisive action to reduce global climate emissions and funded the technological and infrastructure investments that could have helped us adapt to a changing environment and technological epoch without many of the negative impacts to economic activity or supply chains which plague us today. We might of preserved our middle class, avoided the populist backlash

⁹⁶[Fukayama, Francis. “The End of History? The National Interest, Summer 1989, p.3-18.](#)

that put a petty man like Donald Trump in the White House, and culminated in a violent attempt to usurp a duly certified election. We also might have avoided the power grab of the far left in the midst of a pandemic and world war, which having the opportunity to protect voting rights and shore up the nation's strength, instead chose to pursue a partisan social engineering agenda for which they had no mandate.

But here we are. The Silent and Boomer generations at the helm of American government, business, and capital markets made many mistakes, and the rising Millennial, GenX, and Zoomer generations cannot afford to keep making them. However, as the French political scientist Alexis de Tocqueville wrote 180 years ago, I firmly believe **“the greatness of America lies not in being more enlightened than any other nation, but rather in her ability to repair her faults.”** The good news is that America is still in the game and the game itself has not yet collapsed into a scenario of mutually assured destruction. As such, there is still hope of forging a better path forward in which the United States can seek peace and cooperation with renewed strength and vitality.

While every player in an infinite game is ultimately subject to the changing rules and dynamics of that game, it matters what kind of game the players think they are playing. Pit two finite players or two infinite players against one another, and the system tends to be stable. But when a finite player goes up against an infinite player, it can be tempted to prioritize its interests over its values or larger vision and find itself caught in a quagmire that saps its resources and will to stay in the game.

As such, **the only way for the United States to “win” a protracted contest against an infinite-minded nuclear opponent like Communist China and its finite-minded Axis partners and surrogates is to amass the will and resources to KEEP PLAYING the game** -- knowing that autocratic systems will eventually run out of steam and fall on the ash heap of history like the Soviet Empire in 1991 and like Nazi Germany and Imperial Japan in 1945. I do not think it is hyperbole to say the USA and its Allies who won WWII and the first 45 years of the Cold War have lost the peace in recent years and are now struggling to meet the needs of their people relative to prior years of prosperity. Losing sight of our values and trying to impose our will on the world in the 2000s and more recently allowing non-nuclear deterrence to break-down means we've already lost a series of finite games and may well drop out of the larger one if we do not change course.

In a geopolitical contest between the hyper-aggressive Axis and stability-seeking Allies, the fear of escalation and related appeasement of aggressor states only invites further hostility... as does the growing weakness of the Allies. **As in the case of Britain in 1937, time-buying strategies may be necessary for a large power like the United States in a strategic pinch like we face today to rebuild its strength, but the USA cannot afford to waste time or resources while doing so.**

While we can and should try, America's goal at this critical juncture should not be to win what many still see as limited wars in Ukraine or even, prospectively, in Taiwan, but to stay in the larger game of world history and preserve the example of American democracy which President Abraham Lincoln called “the last best hope of Earth”.

The United States and our values-minded Allies can still outpace and outlast the Axis over a longer-time horizon, especially since the US still has the resources, talent, and dynamism to rebuild its strength, return to the values that previously made it so powerful, restore broad deterrence (with the geographic benefit of being surrounded by two vast oceans and the technological prospect of advanced missile and cyber defenses), and catch its second wind in pursuit not only of finite victory but our potential as free people moving out onto new frontiers. But first we have to find a way to survive and function in the current strategic pinch.

It is unclear whether hard times going forward will make or break free societies like the United States, but their superior potential to unlock the creativity and productivity of free people pursuing their self-interest and thrive in the absence of centralized government control is undeniable. **We cannot define ourselves simply by who we oppose, but rather who we are if we are to succeed as a people and stay in the game in the long run.**

Peace Through Comprehensive Strength

In his final and ultimately undelivered speech⁹⁷, which had been planned for the annual meeting of the Dallas Citizens Council on November 22, 1963 (the day JFK was shot), President Kennedy urged the pursuit of peace through comprehensive strength.

“This nation’s strength and security are not easily or cheaply obtained -- nor are they quickly and simply explained. There are many kinds of strength, and no one kind will suffice. Overwhelming nuclear strength cannot stop a guerilla war. Formal pacts of alliance cannot stop internal subversion... This strength is composed of many different elements, ranging from the most massive deterrents to the most subtle influences. And all types of strength are needed; no one kind can do the job alone.”

Kennedy outlined what he saw as the key types of national strength: nuclear weapons and delivery systems, military readiness and modernization, special forces, foreign economic and military aid, information operations, space dominance, equality, social justice, education, scientific prowess, economic vitality, and wise leadership. While the United States has maintained many of these strengths, it has not maintained the same overwhelming position of strength it possessed in 1963, 1993, or even 2003.

President Kennedy concluded his final comments with a warning of vigilance not only to preserve the nation’s strength and defend against foreign aggression, but to preserve and live up to its values: “Now we have the military, the scientific, and the economic strength to do whatever must be done for the preservation and promotion of freedom... In today’s world, freedom can be lost without a shot being fired, by ballots as well as bullets. The success of our leadership is dependent upon respect for our mission in the world as well as our missiles – on a clearer recognition of the virtues of freedom as well as the evils of tyranny.”

⁹⁷[“JFK. Undelivered speech to the Dallas Citizens Council, November 22, 1963.”](#)

In the final analysis, I believe **rebuilding America's strength must start with hard power like manufacturing and military strength, but must not forget the soft power of a moral nation committed to its original ideals:** "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness."⁹⁸ China is betting the United States will continue to betray its values, leave daunting challenges unaddressed, and squander its many advantages. But what if we rebuild America's comprehensive strength as Kennedy conceived it? What if America returns to playing the infinite game that's propelled Americans forward for 243 years and continues to bend the moral arc of the nation toward justice? What if, instead of taking the bait of those who would weaken us, we lift our eyes to see Camelot on the distant horizon and chase after it for the rest of our days?

Building Camelot is Up to Us

The path forward is up to us -- not just elected officials in federal office, but the 330 million people of the United States and the much smaller group of investors, entrepreneurs, executives, innovators, and communicators with the vision and skills to make a material difference in turning the tide. I believe the events of the last 30 years, and particularly the last two years, have left the United States and our Allies with our backs against the wall in a way that should give every American a sense of urgency to build back stronger than ever before and to keep building together even after the Axis regimes have fallen out of the game.

As in World War II and the early Cold War, I believe this crisis can bring out the best in America and spur the GenX, Millennial, and Zoomer generations to build a bright future -- if only we can find the common ground to invest and build our way out of this mess. I believe we have the resources and manpower to rebuild the foundations of free society (including free and trusted elections, free speech, free association, property rights, a culture of self-reliance and ingenuity, and concern for community and the nation) and thereafter to shine like a city on a hill -- inspiring new generations of Americans and those who admire and share our values to carry our ideals and considerable strengths into the next century. This is the core idea on which my partners and I intend to build Camelot Macro.

At its core, our belief in liberal democracy and capitalism is a coldly rational MACRO conviction, not simply an ideological or nationalist one. That's why the Camelot Macro brand invokes the multiplanetary future imagined by visionaries from Walt Disney and JFK to Gene Roddenberry, Jeff Bezos, and Elon Musk. I know these aren't particularly popular ideas as markets crash, but they'll be back in vogue soon enough. I believe that if liberal democracies invest in themselves and each-other once more, our open and dynamic systems can live up to their potential... in which case markets should thrive, dictators should fall, and the vision of a technologically advanced, space-age future should be achievable within a matter of decades.

⁹⁸[Declaration of Independence -- National Archives](#)

This mission, if we choose to accept it, could be the greatest adventure of our lifetimes and could present some of the most compelling investment themes and business opportunities of our careers if we pay close attention and watch macro conditions evolve with open minds.

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Suggested Content for Further Study

BOOKS

[Why England Slept](#) by John F. Kennedy (1940)

[The Infinite Game](#) by Simon Sinek (2019)

[The Long Game](#) by Rush Doshi (2021)

[The Hundred Year Marathon](#) by Michael Pillsbury (2016)

[The Rise of America](#) by Marin Katusa (2021)

[Freedom's Forge: How American Business Produced Victory in World War II](#) by Arthur Herman (2013)

[War, Wealth, & Wisdom](#) by Barton Biggs (2009)

[Unrestricted Warfare](#) by Qiao Liang & Wang Xiangsui (1999)

[The Trap](#) by Sir James Goldsmith (1994)

ARTICLES

["The Return of Industrial Warfare"](#) by Alex Vershinin (2022)

["Deindustrialization Means Disarmament"](#) by Jacob Helberg (2020)

["It's Time to Build"](#) by Mark Andreessen (Apr 2020)

["Building American Dynamism"](#) by Katherine Boyle (January 2022)

["Ukraine War is Depleting America's Arsenal of Democracy"](#) by Hal Brands (Apr 2022)

["Is Escalation in Ukraine Part of the US Strategy?"](#) by Adam Tooze (May 2022)

["Chartbook #119: Lend-Lease & Escalation"](#) by Adam Tooze (May 2022)

["Deconstructing Branko Milanovic's Elephant Chart"](#) by Caroline Freund (Nov 2016)

AUDIO & VIDEO

[George Soros on "Russia, China, & the Fight of Our Lives"](#) (May 2022)

[War Factories, Parts 1-5](#) (July 2021)

[Peter Zeihan on China, the USA, & the end of the world as we know it](#) (June 2022)

[Jerome Powell's remarks at the IMF & World Bank Spring Meetings](#) (Apr 2022)

[Joe Biden outlines his “Made in America” Plan](#) (Sept 2020)

[Janet Yellen on Russia, China, and “friend-shoring” supply chains](#) (Apr 2022)

[Emily de la Bruyerre on China’s global ambitions](#) (2019)

[Death by China](#) documentary (2012)

HISTORICAL SPEECHES

FDR: [“Quarantine the Aggressor” speech](#) (1937)

FDR: [“Arsenal of Democracy” speech](#) (1940)

JFK: [Inaugural Address](#) (1961)

JFK: [Undelivered speech to the Dallas Citizens Council](#) (1963)

Reagan: [Westminster speech](#) (1982)

GOVERNMENT & THINK TANK REPORTS

Alliance for American Manufacturing: [Remaking American Security, Supply Chain Vulnerabilities & National Security Risks Across the US Defense Industrial Base](#) (2013)

CSIS: [The Kremlin Playbook](#) (2016)

CSIS: [“By Other Means, Part I: Campaigning in the Gray Zone”](#) (2019)

National Defense Strategy Commission: [Providing for the Common Defense](#) (2018)

House Armed Services Committee: [Future of Defense Task Force 2020 Report](#)

US Department of Commerce: [“Strategic Material Supply Chain Assessment: Select Rare Earth Elements”](#) (2016)

DoD: [“Assessing & Strengthening the Manufacturing & Defense Industrial Base & Supply Chain Resiliency of the United States”](#) (2018)

McKinsey: [“Building a more competitive US manufacturing sector”](#) (Apr 2021)

White House: [“Building Resilient Supply Chains, Revitalizing American Manufacturing, & Fostering Broad-Based Growth”](#) (June 2021)

Ronald Reagan Institute: [“A Manufacturing Renaissance”](#) (Nov 2021)

The Camelot Macro Team

Worth Wray, Co-Founder & Editor in Chief

Worth leads Camelot Macro's editorial efforts and oversees the member experience. Worth is also a partner and macro analyst at Corriente Advisors, where he conducts global macro and geopolitical research and searches for compelling macro themes. Worth is fascinated by the interaction of markets, economies, and political systems around the world and is particularly interested in the grand strategy (or lack thereof) of the United States of America, its allies, and its adversaries. Prior to joining Corriente in the fall of 2016, Worth served as Chief Economist for STA Wealth Management (2016); Chief Economist for Evergreen GaveKal (2015 to 2016); Chief Strategist to John Mauldin (2013 to 2015); and Portfolio Strategist for Salient Partners (2009 to 2013) where he primarily focused on The Endowment Fund (a joint venture with Mark Yusko and Morgan Creek Capital Management). Worth earned a B.A. from Louisiana State University in Baton Rouge, Louisiana in 2008 and has been an obsessive reader since childhood.

Mark L. Hart III, Co-Founder & Contributor

In addition to contributing to Camelot's publications and private podcast, Mark Hart is the founder, CEO, and Chief Investment Officer at Corriente Advisors. Mark is widely known for his large short position against the US subprime mortgage market starting in 2006, his large short position against European sovereign debt starting in 2007, his large short position against the Chinese yuan starting in 2010, and his long conviction in Bitcoin starting in 2014. Prior to founding Corriente in 2001, Mr. Hart was a founder and principal of Tarpon Advisors, Inc. (a Dallas-based long/short equity hedge fund), a managing director at the Culmen Group (an Australian family office based in Fort Worth, where he was involved in taking MGM Studios public), and an analyst and associate in the New York and Los Angeles offices of Bannon & Co., Inc. (a boutique investment bank specializing in media and entertainment, where he was involved in the purchase and sale of movie studios, film library valuations, theme park development and financing, and an earth system science research facility intended to pave the way for future space colonies). Mr. Hart earned a B.A. in the Plan II Honors Program from the University of Texas at Austin in 1994 and is a 1st-degree Black Belt in Jiu Jitsu under Master Rigan Machado and Professor Marcos Santos. Mr. Hart currently serves on the Board of Directors of the Michael J. Fox Foundation for Parkinson's Research and the Board of Pyroclastic Records, a non-profit, artist-run avant garde jazz label.

Tyler Neville, Podcast Host & Contributor

In addition to contributing to Camelot's publications and hosting its private podcast, Mr. Neville is a trader, macro analyst, and head of marketing and investor relations at Corriente Advisors, LLC. Tyler spent most of his career trading equities and derivatives at a variety of asset management firms, including trading roles at an activist hedge fund called Marcato Capital Management (2018 to 2019) and at trillion-dollar asset manager Franklin Templeton (2014 to 2018). Tyler left financial markets in 2019 to serve as Editorial Director at Real Vision TV where he worked to attract the most exclusive investment professionals and macro thinkers for long-format interviews, often portending future market narratives. In 2020, Tyler left Real Vision to explore digital assets at Blockworks, a media company bridging the gap between legacy finance and cryptocurrency. At Blockworks, Tyler's macro and crypto newsletter grew to over 50,000 subscribers. Tyler earned an M.S. and a B.A. degree from Boston College.

Matt Gilman, Chief Financial Officer & Chief Compliance Officer

Matthew H. Gilman, CPA is the Chief Financial Officer and Chief Compliance Officer for Corriente Advisors, LLC, including Camelot Macro. Prior to joining Corriente in October 2017, Matt served as the CFO of Hound Partners, LLC in New York from 2009 through 2017 where he helped develop the infrastructure and processes to support a multi-billion-dollar hedge fund complex. He also served as Hound's CCO from 2011 through 2015. Prior to Hound, Matthew served as the Chief Financial Officer for Lasair Capital from 2008 to 2009 and Chief Financial Officer for Diker Management, LLC from 2003 to 2008. Prior to Diker Management, LLC Matthew worked at Rothstein Kass, & Co (acquired by KPMG) from 1997 to 2003 and was a Manager in Audit and Fund Administration. Matthew earned a B.S. in Accounting from Rider University and is a Certified Public Accountant.

Laura Stanton, Marketing & Member Services Coordinator

Laura Stanton is the marketing and member services coordinator for Camelot Macro where she works with prospective members and acts as a bridge between Camelot members and the editorial team. She is also the executive assistant to Mark Hart and a project manager at Corriente. Laura previously worked as Mr. Hart's assistant and as office manager from 2005 to 2013 and returned to Corriente in February 2021. During Laura's time away from Corriente she was a Senior Executive Assistant at Lone Star Funds from 2018 to 2020, a Senior Executive Assistant at Infor Software from 2014 to 2018, as well as Senior Executive Assistant to the Dalio Family Office at Bridgewater Associates from 2013 to 2014. Previously Laura worked in a similar role at other hedge funds and family offices from 1997 to 2003.

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