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MARKET INSIGHTS

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Wall Street is pricing the wrong future

John Maynard Keynes wrote this quote in the preface to his book *The General Theory of Employment, Interest and Money*. That is the challenge facing investors now: not finding another explanation for the turmoil, but recognizing when the turmoil has become the wrong starting point.

The market narrative heading into the U.S. midterm elections is extrapolation dressed as analysis: higher rates, the threat of US$200 oil and geopolitical disorder without end. Each disruption becomes evidence that the next one will be worse. The present acquires the permanence of an economic law.

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> *"The difficulty lies, not in the new ideas, but in escaping from the old ones."*
> – J.M. Keynes

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I expect the opposite. After the midterms, the political cycle will turn towards the 2028 presidential election. The incentive to demonstrate disruption will give way to the need to deliver results. Expensive energy, unaffordable housing and punishing financing costs make poor campaign material. Political incentives will favour stabilization, investment and lower inflation.

My market call is straightforward: the U.S. Treasury curve steepens towards a 100-basis-point spread between two-year and 10-year yields, with the 10-year falling near four per cent and the two-year towards three per cent; oil sells off; and productivity-led growth gains ground. We are escaping secular stagnation—with the post-Second World War expansion as our road map—and entering a crypto supercycle comparable to the commodity cycle that followed China's entry into the World Trade Organization (WTO).

These are connected propositions. Their common foundation is abundance: more productive capacity, cheaper intelligence and financial infrastructure that can mobilize capital more efficiently.

Wall Street is pricing in persistent scarcity. The investment opportunity lies in its erosion.

America needs to build its way out

The strongest answer to America's debt problem is a larger productive economy. Fiscal discipline matters, but a country that neglects investment while arguing over its liabilities will eventually discover that its balance sheet has two sides.

Artificial intelligence (AI) offers a route to stronger productivity. The task is to turn that possibility into factories, power generation, transmission networks, software and businesses that produce more with the resources available. A supply-side program deserves the name only when it makes those investments easier to undertake.

America is escaping secular stagnation. The generation after the Second World War is our road map—not an automatic return to the inflation of the 1970s.

In the late 1930s, American economist Alvin Hansen's secular-stagnation argument captured a plausible fear—mature economies might struggle to generate enough investment to sustain employment and growth. Today's pessimism has different ingredients, but a familiar structure. Ageing, debt and political dysfunction are treated as constraints technology cannot overcome.

The post-Second World War lesson is not that constraints vanish, but that productive expansion changes its weight. A debt burden that looks overwhelming against a stagnant economy becomes more manageable against a growing one. Investment does not merely add expenditure today. It enlarges the capacity that services tomorrow's obligations.

America's public debt fell from 106 per cent of gross domestic product (GDP) in 1946 to 23 per cent in 1974. That achievement was not growth alone. Primary budget surpluses, unexpectedly high inflation and suppressed financing costs all contributed. Research by economists Julien Acalin and Laurence Ball shows that removing those contributions leaves a much smaller decline in the debt ratio.

This strengthens the practical lesson. Successful debt reduction requires several forces working together: productive growth, fiscal restraint and financing conditions that do not consume the gains. Invoking the post-Second World War record while ignoring its budget discipline is as misleading as invoking its low interest rates while ignoring its expanding economy.

Today's objective should not be to recreate financial repression. It should be to avoid making productive expansion prohibitively expensive.

Interest rates are not simply a brake on consumption. They are also a hurdle for building the capacity that contains future inflation. An economy that needs more electricity, housing and industrial infrastructure cannot solve its supply problems by repeatedly raising the cost of supplying them. Nor does a stronger economy automatically require higher policy rates. The distinction is between growth that outruns capacity and growth that expands it. Monetary policy becomes destructive when it refuses to distinguish the two.

Former U.S. Federal Reserve Chair Alan Greenspan understood that distinction during the productivity acceleration of the 1990s. In 1996, he resisted pressure to tighten despite strong activity and a tightening labour market. He believed information technology was raising productive capacity faster than conventional estimates recognized. Inflation subsequently fell rather than deliver the acceleration the old models anticipated.

That is the useful Greenspan parallel—not a loose amalgam of Reagan-era tax policy and every subsequent expansion. His achievement was to recognize a supply improvement before the statistics fully captured it.

Current Federal Reserve Chair Kevin Warsh does not need to invent a new monetary doctrine. He just needs to follow Greenspan's road map: recognize the productivity acceleration, distinguish stronger supply from excess demand and give the expansion room to run.

That means not waiting for every productivity revision before acknowledging the shift. Equally, investors should demand more than presentations about theoretical efficiencies. The evidence must appear in output per worker, deployment costs, delivery times and returns on capital.

The fiscal counterpart is equally concrete. Faster growth creates room for debt stabilization; it does not authorize governments to spend every additional dollar before it arrives. The purpose of expanding the denominator is to reduce the debt burden, not provide political cover for an ever-faster numerator.

America does not need zero interest rates to exploit this opportunity. It needs a credible distinction between financing speculation and capacity. It needs planning decisions that permit construction, energy policy that supports reliable supply and a fiscal framework that preserves some of the growth proceeds.

The policy error would be to choke that process because stronger real activity is mistaken for renewed inflation.

Strong growth does not dictate high yields

The claim that nominal GDP growth determines bond yields is a useful shortcut masquerading as a valuation model. Yes, old relationships and beliefs must be abandoned.

Nominal growth combines real expansion and inflation. Bonds do not respond identically to both. A demand surge that overwhelms supply is different from a productivity improvement that raises output while lowering costs.

Long-term Treasury yields reflect expected short-term rates and the compensation investors require for holding duration. Inflation expectations, the outlook for real rates and the term premium all matter. Nominal GDP alone cannot tell investors how those components will move.

This is where the bearish consensus becomes too mechanical. It sees investment spending, stronger activity and large public borrowing, then assumes the destination is persistently higher nominal yields.

The alternative is that investment first creates demand and then supplies the capacity that relieves it.

AI makes that sequence particularly important. Data centres require electricity, equipment, land and construction before they produce useful services. Their arrival can intensify bottlenecks. But the investment thesis is not that bottlenecks endure indefinitely. It is that the resulting capacity lowers the cost of intelligence across the economy.

Firms then face a new competitive problem. When rivals can automate more cheaply, speed up development or deliver services with fewer inputs, standing still becomes expensive. They must invest to preserve their position.

This is the Red Queen economy: running faster merely to remain competitive.

Its defining feature is not that investment disappears, but that investment becomes compulsory while the ability to retain its benefits becomes contested. Productivity can rise even as pricing power weakens.

That distinction matters for equities and bonds. A technological revolution can be excellent for customers, support aggregate growth and unforgiving to incumbent profit margins. Strong capital spending is not proof that every supplier or adopter will earn enduring excess returns.

Nor is productivity automatically a prescription for lower real rates. Stronger investment demand can raise them. Federal Reserve research explicitly identifies the possibility that higher trend growth supports higher real interest rates even while productivity restrains inflation.

My forecast therefore does not require real rates to collapse. It requires disinflation, a lower expected policy path and less compensation for persistent inflation to outweigh the upward pressure from investment.

U.S. President Donald Trump's economic program follows a Hamiltonian logic: strengthen domestic industry, encourage capital formation and build America's productive capacity. The shift away from the previous administration's open-border approach belongs within that broader strategy.

We are in an adjustment period, not a permanent supply crisis. Tighter immigration forces businesses to move away from dependence on an expanding pool of inexpensive labour and towards investment, automation, higher output per worker and higher wages. The transition creates bottlenecks, but

those bottlenecks are an argument for accelerating investment—not suppressing growth.

The objective is an economy that expands through productivity and rising real wages rather than perpetual additions to labour supply. Productivity makes higher pay sustainable without requiring higher prices. Monetary policy should accommodate that transition, not mistake its temporary strains for evidence that stronger growth must be inflationary.

That is the route to a 10-year Treasury near four per cent and a two-year near three per cent. The front-end declines as monetary restraint eases. The long end retains a positive term premium and a return consistent with continued expansion.

The curve steepens because short rates fall further than long rates—not because the bond market abandons fiscal discipline.

A steepening curve is not always a warning. In this scenario, it marks a transition from inflation restraint towards a more sustainable expansion.

The political premium in oil will unwind

Oil is the bridge between the political cycle and the bond call.

A persistent energy shock can frustrate disinflation, erode household purchasing power and complicate monetary easing. A reversal works through the same channels in the opposite direction.

But a forecast of ever-higher oil prices requires more than identifying geopolitical danger. It requires that danger to keep removing supply, obstructing its movement or raising the compensation buyers pay for security.

Investors should distinguish between a frightening world and an ever-tightening physical market.

My expectation is that the post-midterm political incentive shifts towards reducing the energy burden. An administration seeking a favourable economic verdict in 2028 has reason to prefer functioning trade routes, reliable supply and lower petrol prices to a permanent crisis premium.

That does not require geopolitical harmony. It requires sufficient stabilization to make the most expensive insurance against catastrophe look overpriced.

The market mistake is treating a risk premium as an immutable production cost.

I expect oil to fall because the premium attached to prolonged disruption will prove harder to sustain than the prevailing narrative assumes. Supply responses, substitution and political pressure will increasingly work against it.

For the rates thesis, the consequence matters more than a heroic oil-price target. Cheaper energy makes the transition to lower nominal yields easier without requiring a recession.

For the growth thesis, it reduces the cost of building and operating the new productive economy.

The bullish bond case is therefore not an argument that America must weaken. It argues that the sources of inflation can weaken while America builds.

Bitcoin's next chapter belongs to Wall Street

The same analytical mistake appears in bitcoin: investors keep judging a developing market by its founders' ambitions.

Bitcoin does not need to overthrow established finance to attract a much larger pool of capital. It needs participants with different objectives and infrastructure that allows them to act.

An early holder may see an escape from the banking system. A portfolio manager may see a scarce monetary asset. A bank may see custody, trading or collateral-related revenue. Those motives need not converge for the market to expand.

Institutionalization changes the question from "Why does this exist?" to "What exposure belongs in a portfolio?"

That change is more important than the ideological fidelity of the earliest adopters.

The internet offers a useful analogy. Its commercial expansion did not depend on preserving the culture of its pioneers. Established organizations adopted its capabilities, rebuilt businesses around them and took its development in directions no founding community could control.

We are entering a crypto supercycle, much as commodities did after China entered the WTO in 2001, as previously mentioned. The parallel is a structural expansion in participation and deployable capital—not a promise of uninterrupted appreciation.

China's integration into the world economy offers the portfolio precedent. Its industrialization created a demand story around which Wall Street built products, research and portfolio strategies. Commodities became not merely physical inputs but institutional exposures.

Bitcoin has no equivalent industrial consumption story. The parallel concerns how a structural change attracts capital—and how Wall Street builds the machinery to channel it.

An asset becomes easier to own when investors can obtain custody, execution, reporting and a defensible allocation framework. Institutional infrastructure converts abstract interest into an implementable decision.

The Sharpe-ratio question follows: does adding exposure improve portfolio returns relative to risk? The answer must be demonstrated, not assumed. But asking places bitcoin inside the investment process rather than outside the financial system.

Early-holder selling does not invalidate that transition. Sellers and buyers can have different time horizons, liabilities and reasons for participating. The relevant test is whether incoming demand durably absorbs the supply.

Wall Street does not need to share bitcoin's founding philosophy. It needs a business case.

Programmable finance need not defeat the dollar

The broader technological opportunity extends beyond bitcoin.

Tokenization puts claims on financial or real assets onto programmable platforms. Its attraction is the ability to connect transactions that currently require separate messaging, reconciliation and settlement processes. The Bank for International Settlements (BIS) describes precisely this integration as a central promise of the technology.

That is not merely a new wrapper around an old security. It offers a way to redesign parts of the machinery through which money and collateral move.

AI adds a potential user base. Software agents acting for businesses will need ways to purchase services, verify authority and settle obligations. Programmable payment arrangements could make those transactions easier to coordinate.

But the categories must remain separate. An AI agent making a payment is not automatically creating demand for bitcoin. A tokenized bond is not bitcoin. A dollar stablecoin is not a vote against the dollar.

Indeed, tokenization can extend the usefulness of existing money. The BIS's preferred architecture centres on central-bank money, commercial-bank money and tokenized assets—not replacing national currencies with unbacked crypto assets.

The likely contest is therefore not simply crypto against banks. It is among competing ways of making financial claims programmable, transferable and commercially useful.

Established institutions have advantages in that contest: customers, balance sheets, regulatory relationships and distribution. They can adopt new infrastructure without surrendering their place in the system.

The financial revolution may arrive wearing the incumbent's suit.

For bitcoin, this is both opportunity and discipline. Institutional participation can broaden access and deepen demand. The development of programmable finance can also proceed along routes that deliver little value to bitcoin holders.

The investment case must identify what accrues to the asset itself.

Bitcoin's distinct proposition is not an operating margin that automation can compress. It is a claim to monetary scarcity supported by network credibility and acceptance. That leaves it exposed to changes in demand, liquidity and confidence, but differs its source of value from a software company or payments intermediary.

The bullish case is that a more digital financial system creates room for a widely recognized scarce digital asset alongside increasingly efficient dollar-based payments. It is not that every transaction must pass through bitcoin.

Institutionalization also brings familiar hazards. More financial products can mean more leverage and more common exposures. In a liquidation, the asset sold is often the one investors can sell, not the one their investment committee has decided is overvalued.

A supercycle is a thesis about market expansion. It is not immunity from its cycle.

The great repricing

The era of secular stagnation is ending. Trump's investment incentives, deregulation and energy expansion provide the microeconomic foundations of the macroeconomic shift. Wall Street, conditioned by years of weak growth and scarcity, will take time to catch on.

Investors shall position accordingly: own American equities, extend Treasury duration and favour energy users over an enduring oil scarcity premium. Bitcoin belongs alongside that allocation as a distinct monetary asset.

The equity arithmetic is compelling. From an assumed S&P 500 level of 8,200 at the end of 2026, earnings of US$450 per share valued at 22.5 times put the index at 10,125 by December 2027—roughly 23 per cent higher before dividends.

Productivity supplies the engine. Companies produce more, contain costs and expand profits. Warsh need only follow Greenspan's road map: recognize that stronger supply is not excess demand. Inflation falls, monetary restraint eases, and bonds and equities rise together.

Own businesses that convert cheaper intelligence into cash flow, not those merely selling the story. Buy duration before disinflation becomes consensus.

"The difficulty lies, not in the new ideas, but in escaping from the old ones," Keynes wrote. Wall Street's delay is the investor's opportunity: buy the shift before consensus abandons the world it has already priced.

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