

J. Michael Locke Musings

#277: Musing February 1, 2026

I am not well-versed in the currency / commodities market so write this first section with trepidation. If any reader with expertise feels I got something wrong, please let me know.

Lots of action going on in the precious metals and currency markets. Time to melt grandma's bracelet. Gold has skyrocketed to an all time high at over \$5,000 an ounce. (not a regular ounce but a slightly different troy ounce dating back to merchants in Troyes, France). Lots of speculation on why but at its core, the scarcity makes it a safe store of value which is not subject to government policy decisions. If you are worried about interest rates / the value of the dollar / social unrest, you go buy gold for your safe room with your guns and ammunition (or just buy a gold ETF).

The "America first", more isolationist positions being pursued by the Trump administration have some real peril for the value of the US dollar. The US dollar is the world's reserve currency. For example, oil trades globally in dollars. This drives demand for dollar-denominated assets (our massive federal government debt). As Trump pulls back from the globalist approach, the demand for our dollar-based debt will likely decline. For example, after announcing a 10% tariff on goods from eight European nations that rallied around Denmark during the Greenland reality show last week, Denmark's largest pension fund announced plans to sell off \$100 million in Treasuries. From Bloomberg: "Pimco's chief investment officer told the *Financial Times* it was pivoting away from U.S. assets because of Trump's "unpredictable" policies. Europe holds 40% of foreign U.S. Treasuries. As Ray Dalio said, "You could easily imagine it could simply become unpopular to buy or hold U.S. debt"...." For all its military and economic strength, the U.S. has one key weakness: it relies on others to pay its bills via large external deficits," said Deutsche Bank's George Saravelos, adding that it's "not clear why Europeans would be as willing to play this part."

I think we are fortunate to have Scott Bessent. He knows what he is doing at Treasury. Part of it is gamesmanship. My understanding he is refinancing a lot of the debt mostly with shorter term notes so reducing the supply of 10 year notes. With lower supply, longer term rates actually have downward pressure.

America has historically pursued a "strong dollar" policy where it wanted the US dollar valued highly compared to other currencies. One challenge with this is that it drives up the cost of exports / reduces cost of imports and thus drives a trade deficit. Not sure Trump wants a strong dollar. Good quote from a guy in the WSJ: "*Prior Administrations prioritised capital markets performance and believed that the deindustrialisation of the US was a necessary side-effect of a more efficient global economy,*" Stephen Jen, a longtime currency strategist with Eurizon SLJ Capital"

Watch the developing issues around digital currencies. The US is not pursuing a digital dollar but other countries are. When you "send money" in the US via Venmo, Zelle or whatever it all connects back to a

credit card or bank account. Other countries like China are going to make it more like bitcoin with you transferring the actual digital currency.

I have written about the paradox of strong consumer spending which drives GDP growth while Michigan reports terrible consumer sentiment. Oddly, it turns out that poor consumer sentiment is a contrarian indicator for the equity markets. From BNY: *“In fact, equities have historically delivered strong returns in the one-year period following depressed sentiment levels, with the S&P 500 delivering average returns of 19% in the 12-months following the low in sentiment.”* Go figure.

As I have written, I believe we will have strong GDP growth in next year. However, it looks to me like a sugar high. We have a fundamental issue with de minimis growth in the number of workers. Without immigration, our population only grew 519,000 last year on a 340 million overall number. Absent real productivity gains, GDP can't grow without population growth (or higher labor participation rate).

We might get a Hail Mary on productivity from AI. Interesting predictions on AI from Goldman Sachs CIO:

1. **AI is the new operating system:** Rather than functioning as one-dimensional applications, AI models are becoming operating systems that independently access tools in order to perform tasks. In turn, computing is evolving from static, hard-coded logic to outcome-based assistants that reprogram themselves.
2. **Context is the new frontier:** AI models that have been trained on vast pools of data can still only summon up relatively tiny contextual frameworks. But newer models can reason and inject much larger contexts into processes to provide far more bespoke, customized responses.
3. **The rise of the personal agent:** What we do now with apps soon will be done automatically via personal agents. For example, if a flight is cancelled because of the weather, an AI agent will know to rebook the flight, reschedule meetings, and order food for afterwards (since restaurants will be closed).
4. **The agent-as-a-service economy:** Companies will shift from deploying human-centric staff to tackle tasks to deploying human-orchestrated fleets of specialized multi-agent teams. These hybrid teams of humans and machines will charge clients by the amount of tokens—the units of data used by AI models—that are consumed.
5. **Learning becomes the most important skill:** The workers who thrive will be the ones with expertise who are also the most willing to adapt. For those workers, the single biggest differentiator will be their ability to reimagine—in an age where AI will help them to do their jobs—something they've been doing for many years.

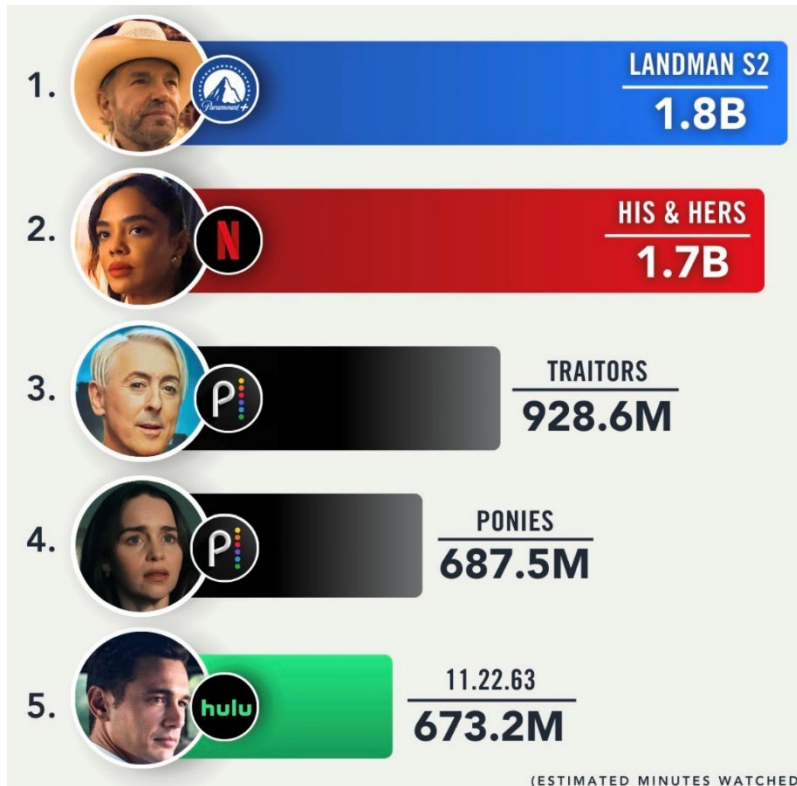
To my comment last week about domestic relocation based on policies, California lost 229k citizens, New York 138k, Illinois 40k. You get the point.

Why do pharmaceutical companies not have liability for vaccines if they cause harm?

According to the WSJ, one in five Americans have tried a GLP -1.

Get ready to head to Cuba. Cutting off Venezuelan oil will lead to a regime change driven by social unrest.

Here are the most watched streaming shows last week. Don't know anything about 3,4 and 5. Landman and His & Hers are good.



I hate how media now says “[insert president] appointed judge.” My experience is that federal jurists are doing their best to fairly call balls and strikes. Clearly, there are gray areas of judgement that will be influenced by personal perspectives but to politicize the judiciary is not healthy. One law school professor once said to my class something like “the whole goal of the system is to have dispute resolution that is accepted by the public” rather than technically getting stuff right or wrong.

Recently had a chance to socialize with some “more experienced” members of my community. The vitality of today's 85+ crowd is really something. I think it makes life so much richer to have intergenerational relationships. Brings perspective and different views. Valuable for both sides as I learn from them and then I explain who Bad Bunny is.

RIP Southwest. Activist investor hedge funds pushed for adoption of traditional airline model and making money on bags and seats. Problem is there were many (like me) who chose Southwest because of their different model. Without that differentiation, I now look at all airlines vs just defaulting to Southwest. Will be interesting to see if it backfires.

jml