Tony Pasquariello: Hello everyone. My name is Tony Pasquariello. I'm the global head of hedge fund coverage at Goldman Sachs. And I'm thrilled to be joined today by Stan Druckenmiller. Stan is the chairman and chief executive officer of Duquesne Family Office. Stan, a sincere thanks for taking the time to do this.

Stanley Druckenmiller: My pleasure to be here.

Tony Pasquariello: So, Stan, we're clearly living through and investing through a truly historic period in many regards. So, as you look at everything that's taken place, what's your current framework for the markets?

Stanley Druckenmiller: Buckle up. Tony, I've been doing this as some kind of chief investment officer since 1978. And this is about the wildest cocktail I've ever seen in terms of trying to figure out a roadmap. Just to frame things a little, the recession we had last year or whatever you want to call it, the economic downturn, was 5X the average recession since World War II, but it did it in 25 percent of the time. More bizarrely, during the year while 11 million people more were unemployed, we had the largest increase in personal income in 20 years during an economic downturn that's occurred. And of course, as you know, that's because of the massive policy response we got.

The Cares Act added trillions of dollars in fiscal stimulus. How big was it? In three months, we increased the deficit more than if you took the last five recessions combined. And those were big ones. That was '73, '75, the '82 recession, the early '90s, the dotcom bust, and then of course the great financial crisis. If you added the increase in the deficit in all those five periods and combined them, we increased the deficit in the US more in three months in 2020 than we did in the cumulative total.

The Fed, in six weeks, bought more treasuries than they did in ten years under Bernanke and Yellen when people like me were screaming about how excessive QE was during that period. Corporate borrowing, which almost always goes down in a recession as corporations reliquefy and had already gone from 6 trillion to 10 trillion because of pre-money going into the period, actually went up 400 billion dollars. Just for that perspective, it went down 500 billion during the great financial crisis. So, this is sort of the background. And obviously, all this stimulus has flowed into financial markets in the commodities and the financial interest. So, it's sort of a bizarre background.

The other thing I would say, I'm excited that we have an Asian audience today because the juxtaposition of the various policy response is somewhat breathtaking. One of the best ways to encapsulate what I've just talked about is since 2018, M2 in the US has grown 25 percent more than nominal GDP. So, we've had a 25 percent increase in liquidity. In China, M2 to nominal GDP is where it was three years ago. So, they haven't borrowed anything from their future. We've had a massive liquidity input. And frankly, very low investment. It's primarily been transfer payments and Fed stimulus. And we've done a horrific job with the virus. The Chinese, basically Asia in general, the Chinese, the Taiwanese, Hong Kong, they've pretty much defeated the virus. They haven't borrowed from their future. So, the background could not be more different. But it also could not be more exciting if you're a macro investor because on top of all this, there is the other big force in the equation, which is vaccines. And it's possible, in fact probable, that all this stimulus is still going to be in place, and frankly increasing, just when we unleash the biggest increase in pent-up demand globally we've had, maybe, since the 1920s, which could make the world look extremely different than it looks today.

Tony Pasquariello: So, let's jump off that. One of the hallmarks of your career has been a willingness to take risk in many different ways, in many different markets. And so, as you look at all of the arrows that are in your quiver right now across kind of all the major asset classes, and if I asked you to pick one asset that you think should offer the best opportunity set for, call it, the next year or so, what would your pick be?

Stanley Druckenmiller: That's not really the way I play the game, Tony. I'd like to use more than one arrow if it's appropriate. I would say my overriding aim is inflation relative to what the policy makers think. But because of the policymaker response, which could be very varied based on the vaccine and how they respond to various metrics, I've found it’s better to have a matrix. So, basically, the play potential inflation, I have a short treasury position, primarily as the long end. Because the Fed could drive me crazy and not really let that come to fruition, I also have a large position in commodities. The longer the Fed tries and keep rates suppressed so they'll have stimulus in the pipeline, the more I win on my commodities. The quicker they respond, the quicker, I might have a problem with my commodities. And then because of the juxtaposition of our policy response versus Asia, I have a very, very short dollar position.

Tony Pasquariello: So, let's turn to the stock market for a moment and specifically to the tech space. You've been all over the mega theme as it relates to the cloud for a long time now. But as we just heard, some of the macro - the big macro dynamics in the game are changing, and perhaps in a way that's probably less supportive for secular growth companies than it may have been prior to all this. And so, how do you currently look at the runway for tech, be it mega cap tech or some of those Cloud names, or even some of the smaller names that have been very high velocity in the recent period?

Stanley Druckenmiller: It's a tough question because there's no question if we get, say 4-5 percent inflation in the US a couple of years out and bond yields ride precipitously, that's very negative historically for growth stocks relative to other stocks. On the other hand, I think the comparisons with 2000 are ridiculous. And the reason I think they're ridiculous is we had a double whammy back then. We not only had the raging mania overvaluation, but the earnings were about to end because those companies that were growing rapidly then were all about building the internet itself. And the internet, and I for one didn't see this coming at the time, the internet had already been built. So, imagine companies selling railroad ties just as the Union Pacific had crossed the United States and was done.

I do think the combination of valuation and challenged bond markets could certainly make growth stocks in a very, very challenged environment the next five years, certainly relative to what they've been, which is not saying a lot. Having said that you mentioned the Cloud, I'd say we're in the third or fourth inning. We jumped in COVID from the first inning to the third or fourth, but we're not in the ninth inning and if anything, company after company I talk to is actually speeding up the transition because they're going to competitively die if they stay behind within digital transformation.

And you take a company like Amazon, it's inconceivable to me that all these people that have never used the internet before and the whole of AWS, I don't see them going back. And a lot of their competitors, despite the fact that they're up 100% in the last few days in a short squeeze across the board, a lot of their competitors will be extremely wounded what they were pre-COVID.

So, the other thing I would say is within tech itself, FANG, or let's just talk about, say, Amazon, Microsoft, that brand, they've actually been big underperformers the last two or three months. It's like the market has rotated into 40 times sales tech companies or into radioactive reopening stocks. And if you actually looked at the Amazons and the Microsofts, the Googles of the world, they're not overvalued, they're GARP names, and they're currently out of favor. And if the Fed continues to push the envelope in terms of friendliness, I'm not really too worried about those stocks. If anything, I would think they could keep going somewhat.

Tony Pasquariello: Given that it's been a very hot start to the year in local equity markets, could we just maybe dig a little bit deeper on your current investing views on the region? Does any market or any asset class there really stick out to you? Japan, China, Korea, et cetera?

Stanley Druckenmiller: I own them all. And I don't know what they're going to do over the next week or two. You’re right, they've had a very good start to the year. But when I look at how much the United States borrowed from their future, and when I looked at what Asia and how they’ve handled it, I just think they're the big, big winner coming out of COVID. And even within specific areas like tech, Intel's thrown in the towel. So, Asia owns Foundry. They own memory. They're ahead on robotics. I just think the next five years or so, Asia looks a lot better to me than the United States because at some point we've got to pay back in terms of productivity, in terms of higher rates, in terms of a lower dollar for all these transfer payments we've made the last nine months and it looks like we're going to continue to make. So, I'm quite constructive on a number of names in Taiwan and Korea and China. I guess like the rest of the world, PSI in Singapore.

But I just think long-term, I don't know about the next two months. I'm unfortunately right with the consensus I think Asia is going to be an outperformer, their equity market versus US and especially their currency market. Again, I mentioned it, but China has done virtually no QE the last two years, while our QE to GDP has been like 14 percent. Their real yields are higher than ours. They continue to run a current account surplus. I'm sure you saw *The Financial Times* this morning that net investment into China actually passed the US for the first time ever this year. And I just think it's the beginning, not the end, of the trend.

Tony Pasquariello: I'd like to spend a minute on your process for money management, and you had referenced this earlier, but you've remarked to me before, you can't make big money without confronting big swings and real market volatility. And yet, one of the hallmarks of your career is you just don't lose money. Not that you don't have draw downs, of course you do. But I think you've been running Duquesne since 1981 and I believe you've never recorded a down year. And so, I just want to ask a little bit about your portfolio construction process and then your risk management around that. Is there a specific process or given set of principles you tend to follow at all times?

Stanley Druckenmiller: First of all, the no down years is true, but a lot of it is luck. I've been deep in the hole three or four years. And in every case, something came along, and it was just a coincidence of the calendar. December 31st, December 31st, I happened to be up. Had you measured from another part of the year, say May to May, I would have had some down years.

But I would say, Tony, and you're right, I referenced it earlier, the fact that I can travel around five or six asset classes does a couple of things. Number one, it can point you in the right direction. And if you really believe something, you can make big, big gains there. Number two, as a macro investor, currencies and bonds trade 24 hours a day and they're very liquid and you can change your mind, which I've had to do a lot in my career because I've been wrong a lot in my career. And number three, this is more subtle, but it also gives you discipline not to be playing in it around in an area that is dangerous. If you're an equity only investor, it's your job to be in equities. If you have the latitude to say, I'm just not going to play, it's too complicated, you don't play in them.

So, I think in many cases, credit would be a perfect example, I've never lost money big in credit because the only time I ever buy credit is every eight years there's a complete debacle in the credit market and we go in and we buy a bunch of credit. Well, if I was a credit investor, I would have had three or four down to 30 percent years. So, that's that.

The other thing I would say, and this is totally counterintuitive, I'm very much of the philosophy which also creates its own discipline problem, put all your eggs in one basket and watch the basket very carefully. You know, I have found time and time again that every investor, has three or four big winners a year. And usually, you know what they are. And where you get in trouble is something you're not entirely focused on. Well, when you put 50, 60, 70 percent of your assets or more in one asset class, trust me, you're focused and they're more risk averse than something where you might have five or six in and it can have a blow up.

I've never used VAR. We have used it at Soros to get banking lines from great companies like Goldman Sachs. But basically, very unsophisticated. I'd watch my P&L every day. And it would start acting in a strange manner relative to what I would expect out of a matrix. I described one earlier for today, you know, my antenna go up. And I've always used my P&L because I found all of those risk models, they're great until complete chaos happens. And then all the correlations break down and they can suck you into a false security. If you're watching your P&L and your antenna are up and you've been doing it for 30 or 40 years, I've found it a much better warning system than some of these mathematical models out there. They're useful. They're just not useful when you really, really need something like that.

Tony Pasquariello: Bitcoin. Is this the mother of all asset bubbles? Or perhaps something more genuine and more lasting?

Stanley Druckenmiller: Maybe both. I think it wouldn't be doing what it was doing if we didn't have the central bank behavior we have. I was skeptical three or four years ago when it came out, why would anybody buy this thing? But they've done this unbelievable marketing job. It's been around 13 years. And particularly, younger millennials looking at the way I've always looked to gold.

I do doubt. I have my doubts whether Bitcoin itself will be anything other than a store of value because it's got all sorts of problems as a currency. Number one, it uses up a lot of energy. Number two, it's volatile. There are other technical problems with it I don't really understand. But you know, right now it's an asset class. My view of it has been way overblown in the press. I do own some of it. It's gone up a lot since I bought it. It's just sort of a plaything. I don't really believe in it. I don't really not believe in it. It could be a new asset class. The answer is I don't know

Tony Pasquariello: Stan, I want to spend a minute on the topic of capitalism which had become a hot button issue before COVID. I'd just be curious as we kind of move through this again, a very pivotal period in American history, how would you characterize the state of American capitalism? Are you worried about, again, the kind of the American style, Western style, future of capitalism?

Stanley Druckenmiller: Well, the reason I'm worried is we haven't really engaged in capitalism for quite some time. The central bank has bastardized, probably, the most important price in the world, which is the cost of money, particularly at the long end. We have crony capitalism, as you know. But even in the best days of capitalism, it's always been a stain in the United States, which is, I grew up believing this theory about pulling up your bootstraps and we're a meritocracy. And we are a meritocracy by and large, but there is a sub sector of our society where we're really pretty much in a caste system. And we have neighborhoods in our country, and a lot of them, I might add, where millions of kids just don't have the opportunity to pull up their bootstraps and work hard. And that's always been there. And that is something we need to address. Which is why I'm not sure the events of last summer were such a bad thing. It's my own view that they were kind of a good thing because people need to be woken up to the fact that the American dream, it's a great thing, I think it's the greatest country on Earth, but there are, I don't know, a significant amount of kids who don't have access to the American dream the way you or I did.

Tony Pasquariello: Stank, thank you so much for taking your time and sharing your thoughts with us.

Stanley Druckenmiller: Thank you, Tony, I enjoyed it.