The Year Of The Fire Horse: The Year That Central Bankers Become Largely Irrelevant

By Vineer Bhansali | January 8th, 2025

Financial markets don't need to be told that 2026 is a year of the Fire Horse. Starting sometime in February, this year will be a year, of "energy, passion, ambition and transformation" according to the Chinese Zodiac that assigns animals to the Lunar New Year. For me, it will be an even more special year, since the last year of the Fire Horse was in 1966, the year I was born, and most likely I will not be around in organic form for the next one in 2086, since the cycle only repeats once every 60 years. Turning 60 this year for me will thus be mixed – on the one hand I feel lucky to be alive in a time and world of opportunity, have no health issues, and am still training for and running ultramarathons. But on the other hand, I can see that the next decade will put me further out of touch with the culture and focus of the generation to come which in my thirty-five-year career has gone from paper trade tickets, one on one meetings, tape decks, working out problems with pencil and paper and handwritten letters to trading on iPhones, zoom, streaming, AI, and disappearing signal texts. Another cultural bedrock for those three decades has been faith in the Fed and its willingness and ability to credibly engineer balanced economic outcomes. For market participants who have endured as long as I have, with due adoration and adulation to that institution whose policies have driven our careers, I believe 2026 is likely to result in major change. This year the Fed and other Central Banks, in my humble opinion, will start to become explicitly irrelevant, at least as far as its influence on the real economy is concerned!

Now that is a bold thing to forecast – and I almost hope I am wrong. But, before we dismiss this idea, please note that for the last half a decade, the markets have already largely ignored the Fed. Part of this has to do with the realization that the Fed (1) gets forecasts wrong as much as the rest of us, (2) takes actions on the wrong forecasts, (3) has become a surreptitious, polarized and polarizing political extension of the rest of the government but without much accountability to the public. This has also resulted in much of the actual banking activity migrating to an alternative financial world. Starting before the global financial crisis (GFC) in 2008, the private markets had already created a "shadow banking system" that for the large part was not overseen or regulated by the Fed, and the same old wine in new bottles has probably emerged again today under the new, euphemistic label of "private credit".

Barring bold “Fire Horse” moves from Central Bankers, the risks are obvious – what they say and do matters little for the economy, though it does matter somewhat for asset prices given their ability to buy and sell them at whim.

Whether the Fed cuts or raises rates, buys or sells securities, focuses on employment or inflation, the markets have practically ignored their actions and marched on ahead, periodically laughing at the distortions and opportunities and a wealth transfer created for bankers and market makers in its wake. The market’s response is not dissimilar to the behavior of my teenagers who, when reprimanded, politely say “I know”, and then move on ahead doing the same thing. The markets indeed respectfully acknowledge the presence of the Fed and its European and Asian counterparts who ride in the slipstream of the Fed, but also realize that repeated time-inconsistency is proof positive that actions will not follow words. How can it be otherwise, as the Fed recently cut again in the face of inflation a full percentage point above their target and $40 billion of new liquidity via Treasury Bill purchases a month, and the equity and precious metals market exploded upwards at the first sign of this same old “non-QE” QE in the name of liquidity and market functioning. The market sees through it all. Irrelevance is much worse than change, and irrelevance creeps up on you if you don’t change when the world changes.

As the politics of the US and the geopolitics of the world undergo a regime shift unlike any other than the Year of the Fire Horse of 1906 (the one 60 years prior to my own birth-year), we are looking at record financial asset bubbles, commodity bubbles, and also euphoric FOMO bubbles in psychology which inevitably co-exist. One thing to remember is to never, ever, fight a bubble. There are plenty of profits to be made after the bubble bursts, as long as one retains some contingent liquidity and the ability to make choices. This brings me to the top things to look out for in 2026 and beyond.

First, a loss of the Fed’s practical explicit independence, which to me seems obvious in the brave new world of the Year of the Fire Horse, will conspire with fiscal profligacy to create lower short-term rates and higher, much higher long-term rates. How low and how high? Perhaps 2.5% short rates by the end of the year and a 5.5% or 6% or higher long bond. I would love to be able to buy a 7% long bond and park it for the next 30 years if that happens. And so would the public pensions who have actuarial rates of return assumptions of between 6.5% and 7.5%. Wouldn’t it be great to be able to inoculate all future liabilities with nominally risk-free (but not really inflation risk-free) Treasury Bonds? But in the seeds of that very steep curve will lie the pile of sand that will bring the machine to a grinding halt, eventually.

Second, as I discussed in four or five pieces on Gold over the last three years, we are on a one-way train to eye-popping levels for hard assets. A 5x or 10x increase in some of these assets over the next decade would not be surprising as the public, both here and elsewhere, take matters into their own hands. The same has happened for the last 5000+ years as political institutions have come and gone, and we are primed for this to happen again. The basic calculus of supply/demand imbalances for “real” stuff will drive markets. Digital assets won’t do much, since they just do not provide the same time-tested trust as hard assets do. Non-economic reasoning (see my previous articles on this topic) has made precious metals a must-have, and the higher the price goes, the higher the demand does too. At some point, again, the whole thing collapses, but don’t hold your breath, since like the secular cycle we are seeing unfold can be as long lived as the sexagenary cycle of which the Fire Horse is part of.

Third, and a theme that is close to what I have focused on personally, is the consistent and persistent increase in volatility. Owning optionality, which, at its most basic level is the ability to “have choices”, will start to command a premium. The combination of low interest rates, cheap leverage and easy access to options will make retail investors an even more important force in the options markets, and they will drive the so-called “smart-money” who rely on old fashioned concepts of “delta-hedging”, and “risk-control” to the edge of business.

This is a “free-for-all” environment when it comes to derivatives trading and access, and the democratization of financial markets will hit those the hardest who don’t see that understanding of leverage and how to manage it has already permeated into the common knowledge. Strategies like covered call writing, cash-secured put writing, the “option wheel” strategy, and others, until recently the domain of secretive hedgies, is now part of the high-school vernacular (seriously, I have been asked if I can match the returns of 16 year-olds who are running the “wheel” on Tesla stock). Taking this a step further, the democratization of online gaming venues — and the gamification of trading apps — now allows one to bet on anything from the next Fed chair, to military aggression, to the return of Christ in 2026. If one backs out the implied volatility of such binary bets, it becomes obvious that there is literally no limit to the imagination of the betting public (higher volatility equals higher imagination, all else being equal). To the moon and beyond!

So where does this all leave us? If the Fed and Central Banks become irrelevant to the economy, there will be few, if any, adults in the room to take away the punch bowl when the party gets going. The next few years will end up being a period where self-regulation by investors will become critical. Those who are able to bear bouts of panic and euphoria will do well. Those who overreact in real-time to markets and data will get sacrificed. For a blow-by-blow, month-by-month, person-by-person detail of how this transpired in the 1920s, I would recommend reading Andrew Ross Sorkin's new book *1929: Inside the Greatest Crash in Wall Street History--and How It Shattered a Nation*. If nothing else, it will shed light on how far things can go and how far they can retrace. At some point there will be a reset and a rebuild with a new type of mandate. I expect we will see monetization of the trillions of dollars of debt as part of that new deal.

While officially the year of the Fire Horse is not even here yet until February 17, the markets have galloped out of the barn with a fury. Stocks are making records, metals are making new records, and certainly geopolitical events are also making records (almost every weekend, it sometimes seems). If you think 2025 was surprising, you ain't seen nothin' yet. To quote: "Historically and socially, Fire Horse years often coincide with upheaval, cultural shifts, and bold collective movements, where people feel compelled to challenge authority, redefine identity, and push for radical change". We have entered uncharted territory and everything is up for grabs. Giddy Up!

Important Disclosures

Vineer Bhansali, Ph.D. is the Founder and Chief Investment Officer of LongTail Alpha, LLC, an SEC-registered investment adviser and a CFTC-registered CTA and CPO. Any opinions or views expressed by Dr. Bhansali are solely those of Dr. Bhansali and do not necessarily reflect the opinions or views of LongTail Alpha, LLC or any of its affiliates (collectively, "LongTail Alpha"), or any other associated persons of LongTail Alpha. You should not treat any opinion expressed by Dr. Bhansali as investment advice or as a recommendation to make an investment in any particular investment strategy or investment product. Dr. Bhansali's opinions and commentaries are based upon information he considers credible, but which may not constitute research by LongTail Alpha. Dr. Bhansali does not warrant the completeness or accuracy of the information upon which his opinions or commentaries are based.

This publication is for illustrative and informational purposes only and does not represent an offer or solicitation with respect to the purchase or sale of any particular security, strategy or investment product. Past performance is not indicative of future results.

Different types of investments involve varying degrees of risk, including possible loss of the principal amount invested. Therefore, it should not be assumed that future performance of any specific investment or investment strategy, or any non-investment related content, will be profitable or prove successful. Nothing contained herein is intended to predict the performance of any investment.