Simon White: U.S. Dollar in the Crosshairs

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Erik: Joining me next on the program is Variant Perception's managing director, Simon White. Simon's got a fantastic slide deck for us, as Variant Perception always does. You can find the download link in your Research Roundup email. If you're not registered yet, just go to our home page at MacroVoices.com and look for the red button that says Looking for the Downloads.

Simon, before we dive into the equity market, I know you guys at Variant Perception have a slightly different way of approaching markets. So let's start by doing just a quick summary of the process that you use at Variant Perception to approach and analyze markets.

Simon: Thanks, Erik. And thanks for having me on the show again. So, as you say, I think what we're trying to emphasize is it's not so much what you think it's how you think is very important. The slide deck you mentioned, there's a very quick diagram there that I think really covers it.

We really try to focus on leading economic indicators because they tell us where things are going, not where things have been. And we use these to forecast turning points. And through these turning points, we basically look at markets.

But we look at markets through the prism of valuation, sentiment, and momentum. And then we try and look at the biggest mispricings to try and find the best trade ideas. So that's the really succinct version. The aim is to really come up with actionable ideas and using leading economic data to try and find those ideas.

Erik: Let's go ahead and dive in, then, with that context to markets – US equity bond markets and so forth. Give us the high-level overview. We've heard a number of different views on this program. Some people think we're just getting started here and have much higher to go. I think you may have a different view.

Simon: Sure. I think what we're looking at today, really, is 2019 has really been a bit of a conundrum. 2018 it was equities that were pricing in a recession towards the end of the year. Then in 2019 it was the bond market that was pricing in a recession while equities made one of the fastest recoveries that we've ever seen out of a bear market.

And today what we really have is that all the main assets – equities, bonds, and the dollar – they're all up in the year. That's something that's fairly unusual. And that kind of behavior is

consistent with the US experience in world-beating disinflationary growth. But the thing is, from our part, we find next to no support for this in the data and in the economic leading indicators.

So the first thing – we've been hitting upon this for some time now – is that US growth is set to slow. We have our main leading economic indicator for the US and that's been turning down for some time now. Now that tries to give a six-month lead on where we think growth is going to go in the US. And almost all inputs to that indicator have been contributing negatively.

If you look just across the economy, we're seeing slowdowns in housing and auto manufacturing – which are obviously fairly interest-rate sensitive. And especially manufacturing. That's kind of on the front line, if you like, for what's happening in the rest of the world.

We're also seeing tighter bank credit conditions as well. So I think there's a number of signs that suggest that we're entering the beginning of the end of the credit cycle in the US.

The other thing to note is that this disinflationary part, we don't see inflation as gone for good. We're definitely not set into the camp of you're inflationist, you're deflationist, that kind of long-term view on these things. I think you need to be more practical and more cyclical.

And the current lull in inflation, I think that was well telegraphed by leading indicators. You had the rise in the dollar and you had the fall in oil prices. But this lull is temporary and we expect to see inflation heading modestly higher this year and into next year.

Erik: Simon, I have a question. You say here on Slide 4 something's got to give. I certainly agree with you. I'm trying to figure out what. And I'm amazed that we've seen so much resilience in the stock market. As you say, Simon, the bond market is stretched at least as much as the stock market.

And it makes me think about this view that a number of people have expressed that maybe what's going on is – as other markets around the world are weakening, which they clearly are, maybe international investors are looking to US stocks, not because they love the market but because it's the lesser of evils.

Do you think that's part of what's led to all this strength in the stock market, which has certainly caught me by surprise?

Simon: I think that could be something certainly in the shorter term. I think that, really, the story for last year, which has kind of lingered on to this year, was the US was, if you like, the main growth cylinder. And that was outperforming the rest of the world.

What we're trying to do is, really, trying to see where we think things are going. So we still think that's yesterday's thing and it's today's thing, but it's not really tomorrow's theme.

And the reason behind that is, first of all, as I've already mentioned, we're seeing this slowdown in the US gather pace. Now that's from a high level, but it is beginning to gather pace, it's becoming deeper, and it's becoming wider across the economy.

But, at the same time, our global leading indicators – basically we try and track a number of economic and liquidity leading indicators that look across the globe. Now, they've been flagging a global slowdown since, I would say, mid-2018. And what we've started to see with these indicators is they began to bottom – the very beginnings of a bottom – and look like they're about to turn up.

So I think, really, what the next thing is going to happen is you basically are going to get the rest of the world's growth, if you like, is going to stop falling and begin recovering from a low level at the same time as US growth is beginning to gather pace.

And that combination should lead to outperformance of rest of world. First as the US in terms of equities – and that also is one of our strongest things that we're looking at – makes the dollar rally very hard to continue. So we see the dollar as basically in a topping process right now.

And one of the reasons, really, for it being able to struggle to go significantly higher from here is that kind of re-rotation back towards rest of world outperformance. It's not to say the rest of world is going to be doing extremely well. It's very much a relative idea.

And, actually, when it comes to flows – actual flows – if you look at Slide 5, the left-hand chart, we have the dollar index versus net portfolio inflows (this is using the Treasury data), and they've actually been turning down.

And there's been a number of reasons for this. The Fed has basically had this very significant pivot, and they have manufactured lower real interest rates. So you have lower real interest rates in the US, which in the margins should lead to less capital inflow. There's less attractive reasons for capital going in there.

And the other thing really comes down to the rise in interest rates that we've already seen. That's caused FX hedging costs to significantly rise. So one of the big parts of capital inflows is bonds. And bonds tend to be FX hedged. You buy a bond, generally, for income, not for capital gains. You need a stable income, therefore you tend to hedge the FX.

But, because the FX has become very expensive to hedge, the net pickup on essentially buying – for Japanese or, say, European investors to buy US debt – has been negative. So they've largely left the market, or they're certainly buying fewer US securities than they were before.

Now there have been some anecdotal stories of people basically throwing in the towel and buying unhedged. Not only is that probably a longer-term recipe for disaster, but it also means that when the unwind comes you're going to have people that have unhedged positions that

they need to sell – which will have an even more dramatic effect on the dollar and taking the dollar weaker.

Erik: Now, when markets slow down – and everything we know historically about markets is that when the economy is slowing and moving towards recession, usually that means bond yields go down, bond prices go up.

But we have a kind of different environment. Usually, when you're in those circumstances, bond prices are already kind of depressed, yields are pretty high, and there's lots of room for that money to move into the bond market.

Is the money going into the bond market, even at these lofty levels with low interest rates that we're already at?

Simon: Again, the data doesn't support – going back to the chart I mentioned on Slide 5, the left hand side, that's net portfolio inflows. Portfolio inflows are equity and bond flows. There has been some pickup lately. And, as I say, that could potentially be unhedged flows.

But there really is a – the marginal buyer, basically, of US debt, up until about a couple of years ago, was essentially foreign central banks. So they were the ones who were the marginal buyer of US debt. But they, by definition, don't hedge position. They're managing currency pegs, so they don't hedge their positions.

Since the dollar started to rally, that took pressure off these guys to manage the pegs. And then the marginal buyer went to other foreign buyers but not central banks, and these guys are sensitive to hedging costs.

I often pick up bits of, if you like, anecdotal information. You see, oh, Japan's picked up. It's buying German banks or buying whatever it might be. But, often, when you go in to look at the data you see the pickup is actually very marginal. So there really haven't been significant inflows to the US either through bonds or through equities.

And I think that's another reason, as I say, keeping the lid on the dollar. There's certainly quite a few dollar pools out there positioning. If you look at the spec with the positioning and the Commitment of Traders Report, people are net long the dollar against developed market FX.

But we haven't had that follow-through. We haven't had that follow-through, and one of the big impediments is the rise of LIBOR and the concomitant rise in hedging costs that have come with it.

Erik: Okay, Simon. As we move on to Slide 6, what I'm struggling with – you're saying here that US equities and bonds and the dollar have all been up. So if something's got to give, what do you think is going to give? Because we can't see stocks, bonds, and the dollar all continue to appreciate indefinitely. What's going to give? And why is it going to give?

Simon: As you say, it is a very unusual circumstance. As I mentioned, I think that the dollar looks capped – many different reasons why I can't see the dollar continuing much higher from here.

Bonds are also overvalued on some measures. I mean, you have today, I would say, the latest trade tensions have pushed yields even lower. And now you have the 10-year is a few basis points lower than the effective Fed funds rate.

But we also see that bonds are overvalued on our own fair-value model. So if we go to Slide 6, the left-hand chart, what we've done there is we've tried to build market-based inputs. So we have the dollar, gold, oil, the Fed funds target rate.

And we also used speculative positioning to try and come up with a fair value for the 10-year yield. Now, it's not really a prediction of where we think the actual 10-year yield will go, but the information content really comes is when you have a very wide gap between where the fair value is and where the actual yield is.

That's basically what we have today. And that really tells you what the direction of travel is going to be. So, from that perspective, US bonds look overvalued.

In the shorter term, we have these trade tensions that are driving bonds higher. And also, if you look at the seasonals for bonds, the seasonals for bonds are very positive over the summer. So I think bonds could continue to stay supported in the short term.

When it comes to equities, now, and the inflation outlook, as I mentioned earlier, we think inflation is going to pick back up soon. And that also makes it hard for us to justify much higher equity valuations.

If you look at the middle chart on Slide 6, there's something called the Rule of 20. And that basically says that 20 minus the inflation rate should be the fair value for the S&P PE ratio. But rising inflation should mean that that multiple is biased slightly lower.

Again, if you look at longer-term relationships between the cyclically adjusted price earnings ratio, it tends to fall as inflation rises. In many different ways, I think, we see equities as, at best, fairly valued. So the PE multiple is probably biased lower. At best it will probably stagnate.

Also, earnings. We see many headwinds for earning. Our wages leading indicator points to higher wages over the rest of this year. That's going to be a real problem for earnings.

You can also look at, for instance, just simple relationships such as the ISM new orders. When that tends to go lower, as it is today from the manufacturing report, that tends to be a headwind for earnings.

So it's really difficult for us to justify where equities are today. But momentum obviously can carry stuff forward, although in the short term we are seeing some kind of flux here.

Overall, we basically need to see either a big change in our leading economic indicators or we need to see equities, bonds, or the dollar – one of them – beginning to sell off.

And that basically is something that we're looking at today. I think, overall, I think it's the dollar is the one that's probably the most vulnerable. And that's because we can attack that from many different angles. And we can see from a flow perspective, from a growth differential perspective, and from a hedging perspective, it looks to be the more overvalued.

But that's not to say it's going to sell off significantly. I think it's going to be a modest selloff. Whereas bonds, I think, can carry on rallying in the short term. And, as I say, equities, you have so many people that are still potentially offside you have the potential for a quicker recovery there.

Erik: Simon, something that's fascinated me about the people I've had on the program who think the dollar is moving higher is they don't want to be called dollar bulls because they're not bullish the US economy, they're not bullish the US dollar as thinking it's the greatest, strongest, most wonderful currency ever.

They're saying they think there is an international dollar short squeeze, that there is a demand for dollars on international markets that's not being satisfied and that that is artificially creating this move higher in the dollar.

So give me a little bit more perspective on the reasons that, obviously, you guys don't see it that way. You think that the dollar has plenty of room to move lower here, even in the face of that international squeeze in dollar liquidity. I know Variant Perception does a huge amount of analysis on liquidity, specifically, so you guys have to be looking at this.

How do you juggle the importance of dollar liquidity versus actual dollar fundamentals?

Simon: I think that's a very good question. And, again, it comes down to a guess. How we look at inflation – as I mentioned earlier, you tend to have people that are inflationists and deflationists and they tend to pick and choose the data points that suit whatever view they have.

We always try and be much more data-driven and much more agnostic. And when it comes to the dollar – I certainly would never classify us as being dollar bulls or dollar bears. It's very much a cyclical thing.

But the other thing that you mentioned is always a structural part of the dollar market, and that is the fact that there is a very large structural short. So, in time of heightened macro tension, if you like, there will always be a need for dollars.

You have this huge amount of offshore dollar liquidity. So if you look at, basically, the amount of offshore dollar credit – so that's debt and loans – it used to be something on the margin of about $3 trillion, maybe 15 years ago. It's now close to $10 trillion.

So you have this huge overhang, if you like, that any time any kind of economy – or certainly from a global economy perspective like we're seeing today with the trade negotiations – hits the buffers, there is always this natural scurry for dollars.

And it's the same – I guess, it's like my views or your views or anyone's views in the economy are basically subject to provisos that, of course, this would all be different if the economy went into recession. We try and, obviously, predict when the recessions are. And we've obviously done a lot of work on that.

But it's the same thing with the dollar. So, obviously, we had a global macro kind of upheaval on the back of trade, the trade war really spiraling out of control, then of course the dollar is going to rise.

But outside of that structural thing – the cyclical thing is keeping capped right now, and I think that's why it's struggling to rally – is this repeating backing away from the US towards the rest of the world. And that will mean that the dollar will struggle to rally.

Real rate differentials are beginning to favor the rest of world. If you look at the gap between rest of world growth and US growth, it's very large. And it's at the point where it will start to peak the other way and it starts to take the dollar with it as it goes down.

Erik: Let's move on to Slide 7. Something that I don't think got enough press really is the Fed in the past has primarily used the Fed funds rate as their primary policy adjustment tool. But they recently made a small cut to the interest paid on excess reserves.

Why did they do that? What does it mean? And how does it fit in to the overall story of what's going on here?

Simon: I think this is very interesting. And, as you say, it maybe got slightly overlooked, even by Powell himself. He dismissed the cut of the small technical adjustment. But I think it's really much, much more than that. And that's why it's really worth understanding a little bit more.

It really gets to the heart, I think, of a much bigger theme, which is the growing tension between monetary policy and fiscal policy, and, essentially, the growing dominance of the latter over the former.

In essence, the Fed was basically forced to cut one of its main rates to appease the government. We know that Trump and the government have made abundantly clear they don't like high rates.

And even though the main reason for this drift higher in rates, which was directly due to government policy – what this really represents, if you think about it, this is a clear encroachment into monetary policy by the government and certainly not just an insignificant adjustment.

So I'll go into very briefly the detail here. But there's much more to this, which I suggest that your listeners look into a little bit more.

The chart we have there on Slide 7, that shows the rate that the Fed has cut, which is the interest on excess reserves. And that's basically the rate that's paid to eligible financial institutions who deposit reserves at the Fed in excess of reserve requirements.

The gist of it, basically, is that the interest on excess reserves (IOER) is supposed to police the top end of the Fed funds target range. The overnight reverse repo rate is basically meant to be the bottom end of the Fed's target range. And the effective Fed funds rate is basically where the rate sets each day, so it's kind of a weighted average of all the trades.

And that effective Fed funds rate is the one that was getting out of control. It's the one that's basically supposed to trade under this IOER. It started to trade much over it, and this is what really prompted the Fed to cut the IOER rate in early May, from 2.40 to 2.35. That's the first time they've ever done that outside a change to their main target rate.

Where it gets interesting, really, is why did this effective Fed funds rate start to trade higher? And the real reason was basically directly linked to the fiscal stimulus. Fiscal stimulus creates this glut of bill issuance. That caused bill yields to rise until they were higher than the Fed funds rate – and you can see that on the chart on the right on Slide 7.

That's something that's very unusual. And it really was mainly a consequence of this glut of bill issuance. That really began to pull lenders away from the Fed funds market. There's a number of different actors that are heavily involved in lending. And that's why we saw the effective Fed funds rate begin to drift higher.

Erik: Okay, why don't we move on, Simon, to Slide 8. And how did this actually happen, this collateral glut from fiscal stimulus?

Simon: Well, basically, the Treasury had been increasing issuance, as I said. And the primary dealers were being left with more and more inventory. That's the chart on the left-hand side there. You can see that their inventory has risen very, sharply.

And this is because, as I mentioned earlier, the marginal buyer of US debt has moved from foreign central bank buyers who are managing FX pegs, who don't hedge, to other foreign buyers who do hedge.

And you can see from the middle chart, as FX costs have risen – basically, the rise in interest rates has caused a rise in LIBOR. It's become unattractive for many foreign buyers to buy US debt, so the primary dealers are being lumbered with it.

But they have to fund this. They have these glutted balance sheets. They need to fund this in the repo market. And this dynamic is creating an acute demand for reserves, but it's not creating an acute shortage of them.

So, often, if you ever hear that there is a shortage of reserves in the system, that's not strictly true. The reason why you're seeing this acute demand but not an acute shortage is because reserves are not distributed evenly in the system.

It's really one bank who had the lion's share and the single biggest chunk of excess reserves. They have about 20%. And that's JP Morgan.

And, again, you can see this in action. We're always trying to be data-driven here. You can see this in action that, basically, when the repo rate trades above the IOER, the interest on excess reserves, this incentivized banks like JP Morgan to lend their reserves out on repo to people who need reserves, like the primary dealers.

There are also other people that are active in the reserve market, like the Federal Home Loan Banks, and they are also taking advantage of these higher repo rates.

So the net effect is there is basically fewer reserves to lend out in the Fed funds market. And that's resulting in this effective Fed funds rate drifting above the interest on excess reserves. And that's forcing the Fed to ultimately cut the rate.

Now, it's been fairly successful. The effective Fed funds rate has come down to 2.38 from 2.45. But that's still three basis points above the new interest on excess reserves rate of 2.35.

But really, as I say, the main takeaway here is that you basically have a situation where fiscal policy has caused interest rates to move up and it's forced the Fed to cut rates when actually it wouldn't have wanted to do so otherwise.

As I say, that's a very significant baby step. But it's still significant in terms of it is the direction of travel of, I think, we're going to see more and more interference from governments into monetary policy.

Erik: Simon, let's move on to Slide 10: Lending conditions improving in the latest survey. What's going on there?

Simon: A very mild improvement. I think one of the reasons for the Fed's very significant pivot – I mean, it was very difficult to see exactly why they were so decisive when we changed course. But I think one of the things was in the Fed's Senior Loan Officer Survey, which came

out in early February for the three-month previous period, we saw a very sharp fall and banks tightening their lending conditions. So the Fed responded to that.

We obviously have been three months of the pivot. The new survey has come out and we've seen a marginal improvement. But it's not really a huge deal.

And slightly more, I guess, concerning from the Fed's perspective is that loan demand has continued to fall. If you look at the chart on the left-hand side of Slide 10, you can see that latest dynamic.

And bank lending is very important to the economy. If you look at the middle chart here, we can see – if we look at the net percentage of banks tightening their lending standards, that leads US industrial production.

That's pointing to marginally lower US industrial production over the next six months. And this really, as I say, ties into a broader mosaic of a number of things that we're looking at that show the fact that US growth is beginning to slow. And we're always looking for multiple confirmation.

The other thing to note about lending is that when demand tends to fall for loans, as it is today, that tends to lead to lower loan growth. You can see that in the chart on the right. As demand for loans falls, the supply of loans tends to fall six months later.

If you go to Slide 11, the other implications for this is we're seeing basically a broad-based slowdown in credit. We had the retail sales number this week; it was a disappointment again. I think that can be explained pretty well by banks' willingness to make consumer loans, that's falling. And that tends to lead to adjusted retail sales.

Another very important thing, one of the things that's kept the market so buoyant in the last few years, has been buybacks. You've had these massive buyback programs. And it would be very difficult to see these continuing in quite the same way when we're coming to the end of the credit cycle.

So if you look at a chart, basically, of equity buybacks versus C&I lending, which is a proxy for credit conditions, you can see they correlate very well. So as the credit cycle comes to a close, if you like, we should expect to see much fewer buybacks. Which, as I say, is a big support for the market likely to come out.

Erik: Simon, let's broaden this conversation internationally now. Because we've been talking a lot about US conditions. I think one of the biggest fears that people have is if China were to fall apart, boy, you know, the deflationary wave that that could send around the world could start the next big global financial crisis. And, of course, with the US trade war and the negotiations and so forth that are going on, it's led to a lot of heightened worry about the Chinese financial condition.

But you're showing here on Slide 12 that China's liquidity is actually improving slightly. What's going on here?

Simon: We've been tracking this all the way through over the last year or two. And China, basically, the original reason for its latest bout of tightening was to clamp down on the shadow finance sector. And in that aim they've been very successful. If you look at, basically, claims on non-bank financial institutions, which is the epicenter of shadow finance, it's collapsed. So in that end they've been very successful.

And why we've not seen, then, the normal kind of V-shaped recovery in liquidity and in Chinese growth is because they're very reluctant to undo that good work. So all of the liquidity and easing measures that we've seen have been piecemeal.

We've seen cuts to the RRR, we've seen some inter-bank cuts. We've seen the buying of perpetual bonds. But, again, all of these have been different to what we saw in 2016, which was what the Chinese refer to as flood-like stimulus. And they've been very explicit – they don't want to see flood-like stimulus again because, as I say, they don't want to go back and undo all the good work they've done.

So we never really were expecting a V-shaped recovery. But very lately we began to see some response from some of the broader liquidity indicators.

One of the ones we track most closely is M1, when M1 finally began to look like it bottomed and turned up. On Slide 12, on the right-hand chart, you can see the black line. You can see that M1 has finally begun to pick up. So we're beginning to see the very early signs of liquidity beginning to pick up in China.

But the key message really is not to expect, as I say, a 2016-style V-shaped recovery. I still think that some people are believing that that's what we're going to see. And I think equities were trying to price that in too.

But there's nothing that we see in the data that suggests that's going to happen. And that's really basically because it comes down to the Chinese credit system – it's very different from the Western credit system. Credit is not awarded necessarily by need; it's awarded by patronage.

And when credit is created, it tends to go into the state-owned enterprises. But they are not really the people that need it. The people that need it are the private companies. And they are not really seeing credit flow to them as they would normally under this broad flood-like stimulus.

So that's why we're going to have this much more stop-start recovery. And I would say the recovery in China is going to be more U-shaped or L-shaped than V-shaped.

Erik: And how does the trade negotiation play into this if all of these tariffs that have been threatened really do stay permanent and are placed in effect? I would think that that puts a damper on any sign of China turning a corner and moving back into a growth condition.

Simon: Yeah, that's obviously another significant headwind. I mean, we were already kind of seeing this. We try and stay away from making too many comments about geopolitical situations, but, obviously, I think it's fair to assume that trade tensions is a severe kind of external headwind for China.

And we're basically seeing that already reflected in our leading indicator. Our leading indicator for growth in China, as I say, it's stopped falling but it's not really turned up very sharply.

But you don't even need to be a geopolitical expert or pass commentary on what you think, exactly how you think these trade negotiations are going to unfold. Anyone that can do that has clairvoyance that I don't have. But we can see already in the leading data that global exports are likely to fall.

One of the best leading indicators for global exports is what's happening in South Korea. South Korea is an excellent barometer for global trade, given its status as a small, open, export-oriented economy.

And if you look at South Korean export growth, it's been falling for at least the last six months. And that leads global exports by about six months. So we have penciled in for China, as I say, at best a U-shaped recovery. Maybe it's an L-shaped recovery, depending on the severity, of course, of these trade negotiations. That could make that outlook even slightly worse.

But I think a lot of it's kind of baked into the cake already. As I say, you look at the leading data, it's already pointing to a slowdown in global exports.

So I think we would need to see a real significant downturn from here for that not to have been priced into the economic data.

But the main message is don't expect a quick recovery in China. And further trade tensions will only delay that recovery even more.

Erik: Okay. So tying all of this together, from all of the subjects that we've discussed, as you said, something's got to give. We've got US stocks, US bonds, US dollar all at seemingly scary high levels. Something's got to fall apart. And it sounds like one that you see is you think the dollar is topping out here.

And the other view, it sounds like it's for quite a few years now, we've had a situation where the US has been the cleanest dirty shirt in the pile. The US has its problems but they're not nearly as bad as other developed market economies. And it sounds like you think that that is

changing and now it will be the US underperforming other developed markets.

Is that a fair summary? And, I guess, where do emerging markets fit into that calculus?

Simon: Yeah, that's a fair summary. I think the big theme is the rotation away from the US towards rest of world, which should mean that rest of world equities outperform, in aggregate, US equities. It also means that the dollar will struggle to rally much more and should sell off at least modestly.

I think, when it comes to emerging markets, there are very few markets that look cheaply valued. And when I say cheaply valued in emerging markets, you need to look at not only things like their standard valuations like, for instance OCAPE, you need to look at their currency as well.

And the only countries that look particularly cheap right now are ones that are still in flux. So things like Turkey and Argentina. They do look cheap. And there may be some opportunities there.

But giving the outlook right now with the heightened trade tensions, these are very high-risk, potentially high-reward trades. We are looking for situations where we would – say we'd like to buy Turkey or we'd like to buy Argentina, but we do need to see a stabilization in the external accounts of these places.

For instance, you want to look at FX reserves. You need to see a stabilization in FX reserves. And you also preferably would like to see significant rate cuts after the big rate hikes. And we're not really seeing that in any of these emerging markets quite yet.

The macro environment still has height and risk attached to it, and that means there's no real easy pickings from our perspective, and certainly ones that are cheap in the emerging markets sphere.

Erik: Simon, I know the charts and graphs that we've been looking at in this slide deck are representative of a lot of what you use in the reports that you publish. Now, for our listeners' benefit, Variant Perception is fairly protective over their intellectual property so we're not able to send you any free samples of their reports.

But it is possible I believe for our listeners to get a free trial of Variant Perception's service so that you can see some of the research reports that they typically distribute. Simon, tell us a little bit more about what's on offer and where people can go to find out more about it.

Simon: As you say, we have a trial system. That's the best way, I guess, for people to really get to know our work. I think, like a lot of economic research, you need to get familiar with it. So I recommend that.

You can go to variantperception.com and see the page there to sign up for a trial. We also have a new report called "The Leading Edge," which is basically a light, easy-to-digest version of our main product, focused in the US with asset management recommendations.

And there, we have a special offer for MacroVoices listeners. They go to variantperception.com/macrovoices. Listeners can get the first two issues free and they can also sign up for the latest report.

Erik: Well, Simon, I can't thank you enough for a fantastic interview. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.