Stephanie Pomboy: S&P Earnings Do Not Equal Corporate Profits

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Erik: Joining me now is Stephanie Pomboy, founder of MacroMavens and very possibly the hardest-to-get interview guest that we've dealt with to date.

I know when Grant Williams interviewed you the first time, you made a joke about playing hard to get. I thought you were kidding until we've been through this. So thank you for finally coming and joining us for an interview, Stephanie.

Stephanie: Oh, it's my pleasure. Actually, I sort of fashion myself the JD Salinger of macroeconomics. So don't take it personally. I just prefer to remain hiding under my desk most of the time. But thank you for having me.

Erik: Well, we pride ourselves on digging out the people that are actually worth listening to and I certainly respect you in that category.

So let's talk about the big macro picture. I think the big question on everybody's mind is, you know, a lot of us have been saying that we're very late in the economic cycle and it's time for markets to roll over. Markets aren't rolling over.

So what's going on here? How do you see this picture?

Stephanie: Yeah, it's fascinating and frustrating at the same time. I guess, you know, I increasingly am being brought back to 2016. It seems like we've seen a lot of economic data that is now posting its weakest reading since 2016, in the early part of the year.

And I got back to thinking about what was happening then and what the similarities are and, importantly, what the differences are. And it's kind of been an interesting road to go down.

As you undoubtedly recall, in the early part of 2016 it was just on the heels of the very first Fed rate hike. They had dragged their feet following the taper tantrum in 2013 and waited and waited and decided in December 2015 to start raising rates.

And the reaction in the markets was swift and painful. I think the markets clearly perceived the Fed as having mis stepped. And the economic data at the time clearly indicated that the economy was slowing sharply, which sort of begs the question of why they decided that was the moment to start to raise rates.

And obviously all of this reversed on a dime with the election in November of that year as people started to anticipate a pro-business agenda and massive tax cuts. So that whole experience in 2016, when it looked like we were heading into recession and the Fed has made a policy mistake, has now been sort of erased from the collective memory by this shift in policy from DC.

You flash forward to today, and the economy again looks like it's slumping over into recession. And, as you said, the market seems to be dismissing that as not where we're ultimately going to go.

The interesting thing to me is that the thing that might rescue us this time is hard to identify. It doesn't look like we'll see any kind of pro-growth fiscal stimulus. We're busy trying to figure out if we're going to get anything positive out of Washington.

And then on the monetary front – obviously we're going to spend a lot of time talking about this – it's not clear that doing more is necessarily going to help the situation.

So that's my overarching focus right now and I'm happy to go through and look at the specifics on the ground. But that's sort of where I am from 10,000 feet up right now.

Erik: As we come in a little closer, why don't we talk about the quantitative – well it's not quantitative easing – the expansion of the Fed's balance sheet quantitatively for the purpose of providing easing, which is not quantitative easing. That thing that happened last week.

What do you think is going on there? Because a lot of people thought, okay, markets are going to start to crash. The Fed's going to bail them out with QE. It feels almost like the market is being preemptively bailed out, before it even takes a turn south, by QE.

Or is this the Fed trying to stave off that recession that they see coming, even though they say they don't?

Stephanie: I've given up trying to figure out what the Fed is thinking because it's just really hard to tell. I guess one might conclude that they haven't been thinking. I would argue – and actually did argue from the moment this started to unwind the balance sheet – that they really were underestimating the impact that that would have both in the marketplace and on the economy more broadly.

And it is kind of amazing to me that they – they first described it as watching paint dry. This would happen behind the scenes and it really would be a nonevent that didn't have any discernable impact. Which would beg the question, if unwinding the balance sheet was going to be a nonevent, why did you expand it in the first place?

So it just seemed to me that they had done all this analysis about the stimulative impact that expanding the balance sheet had had, and then described this as being on autopilot and sort of not important. Which just didn't make any sense on its face.

And then, obviously, as they got deeper and deeper into this process, you saw more and more signs. The economic momentum was slowing. And the financial system, I think they believed that there was so much in the way of excess reserves that they had a long runway before it would ever get to a point where it was an issue. And they clearly really miscalculated on that front.

To me, it comes back to the broader question about the Fed's credibility. We hang on every word, every utterance that they make. As if they've got some great gift of insight as to where the economy is going and a real handle on the markets. And that, no matter what happens, economic or financial, these guys will navigate around these issues and steer us past any rocky shoals and everything will be fine.

All evidence is to the contrary.

And I'm just surprised, as one who's been (let's say) cynical about the Fed's grasp on what's going on, that the markets still believe that they have some kind of handle on what's going on.

So I think, to me, the biggest takeaway about this whole repo market exercise is that it illustrates how clueless the Fed is about, really, the impact that its policies have had. And, obviously, the fact that unwinding those policies – I mean, this unprecedented stimulus that we saw – completely uncharted territory. And they had this maybe hubristic notion that, oh, we can handle this no problem.

Erik: I've talked to several guests who've told me, look, Jay Powell had it pretty much right. It's end-of-quarter technicalities in the repo market. It's no big deal.

And I've talked to others who've said, look, this right here right now, this is your TED spread blowing out in the summer of 2008 moment. This is your warning signal that the shit's about to hit the fan.

Those are two extremes. Where do you fall in that spectrum in terms of the significance of this liquidity shock that we seem to be experiencing?

Stephanie: Well, I'd say I definitely fall more in the latter camp. I mean, again, I think it comes back to the fact that the New York Fed is really on the front lines of this. And no one really should have a better grasp on the potential liquidity issues in that market than the New York Fed. And they clearly – when the Fed funds, when the overnight rate jumps up to 10%, they clearly miscalculated something.

So, yeah, there are a lot of – it was sort of a perfect storm of events as we look back on it now.

But the fact that they had not allowed any margin of error for these things – I mean, it wasn't news that the Treasury is going to be borrowing a lot. And these are all things that you would think they would have anticipated might happen or modeled for, since they model for everything.

And yet it wasn't just a minor mistake. It was a fairly massive miscalculation. So, again, it doesn't, let's say it doesn't imbue my confidence that they really have a handle on what's going on.

Erik: Stephanie, you also put together a terrific chart book for our listeners. Listeners, you will find the download link in your Research Roundup email. If you're not yet registered, just go to our home page at macrovoices.com look for the red button that says Looking for the Downloads? next to Stephanie's picture on our home page.

Steph, let's talk about this chart book. What caught my interest right on Page 3, it looks like you're showing here – at one point you've got three question marks. It looks like people started actually spending money they already had rather than buying stuff on credit. But it only lasted for six months.

What's going on bigger picture? Why did you start with the discretionary spending and revolving credit retail sales? What's the bigger picture of where you're coming from? But, particularly, what's going on with that credit anomaly there?

Stephanie: Yeah, I am a simpleton when it comes to analyzing the US economy. I always start with the US consumer because I figure if I can get that right I pretty well have got the story. You know, at 70% of the economy, that's really the thing you want to get right.

And I just continue to be confounded by this strong consumer narrative. Because, if you just bother to look at any of the details and the numbers, you find out that the consumer numbers really aren't strong at all.

Just to step back and paint the backdrop here, before you even look at these charts you have to bear in mind that we have sort of the ultimate environment for the consumer right now.

We've got record high net worth. We have record low debt service. Mortgage rates back at, what, 3.6? We have the unemployment rate the lowest in 50 years. The Fed can't seem to conjure 2% inflation.

So when you think about – back in the 70s Arthur Okun created the misery index, which was just a simple addition of the unemployment rate and inflation to capture misery for the consumer. Right now that's at record lows.

So I describe it not as a misery index. It's the mers index right now. I mean, the consumer

basically has everything going for him today.

And then you look at that first chart on Page 2, of discretionary spending, so, basically, everything he has a choice to spend money on. And, going back to 2016 and that analogy, we basically round tripped. We had this little blip up on the heels of the election, and now we're right back to where we were before. And the pattern is one of sort of slow churn sideways to downward in terms of nominal total discretionary spending.

Then if you get to the next page, and the reason I put that chart overlaying revolving credit – essentially credit card use versus retail sales – which, again, is just a way to capture the discretionary portion of consumer spending. What you see is that they are slowing their discretionary purchases at the same time they are accelerating their credit card borrowing.

This in the past has been a harbinger of recession. If you've got to put more on your credit card at the same time you're slowing your spending, it's generally not a positive indication.

So these two charts really make me concerned about this confidence in the strong consumer.

And that really comes back to this whole mistake that the Fed made late last year in raising rates again and their whole underestimation about the impact their balance sheet unwind would have.

But it also feeds into the stock market looking through all of that, because the strong consumer narrative directly imbues this corporate profit story. And, as you're well aware, we're potentially going to have our third quarter of negative profit growth. So we're clearly in profits recession.

And yet the market has looked through that on the idea, I believe, that the recession is strictly a function of this whole trade war weighing on activity and slower growth abroad, that it's not a reflection of the US economy.

And I come back to those consumer charts and I say, hmm, maybe it is more a reflection about things that are going on here and not just a trade-related issue. In which case, now we're going to see potentially weaker earnings numbers in the quarters to come.

Erik: Steph, as I look at the recession areas on the left, it's easy to see what's going on when you have credit card borrowing moving above retail sales. In other words, people are spending money that they don't have.

It looks like where you've got the question marks on the right side of the slide that retail sales continued to increase even as credit card borrowing was decreasing, almost seeming like people were saving up again before they bought stuff.

What's going on here? What does this mean?

Stephanie: Well, in this chart, essentially what I'm trying to highlight is that, starting really at the beginning of this year, you saw credit card borrowing start to pick up at the same time retail sales growth started to slow. That trend, which is why I put those question marks there, has in the past been associated with recessions.

And the question is, is that what it's signaling again this time? Whenever people, as you said, are having to rely on their credit cards more to fund their purchases, much less discretionary spending, that has generally been an indication of recession.

So the jury is out, but I think this is an important one to watch. And, again, it kind of flies in the face of this whole strong consumer narrative. When you think about it in the context of the things I just mentioned – record high net worth and low unemployment rate, etc. – the consumer really shouldn't have to be ramping up his use of credit card borrowing to fund his marginal spending.

Erik: So the recession signal would be that red line crossing the blue line, which have not crossed yet. But, boy, they sure look like they're set up to cross awfully soon.

Stephanie, let's move on to Page 4 where you're graphing inventory-to-sales ratios. What's going on with this chart?

Stephanie: Well, again, this one brings us back to 2016. And I think this one is interesting as it relates to this whole idea that the profits recession is strictly a function of weakness abroad etc. and the trade issue.

And when you look at this you might say, well, this is a trade issue. Companies are just shrewdly stockpiling stuff ahead of what they thought would be further tariff increases down the road, so that's what's behind this increase in the inventory-to-sales ratio as opposed to wholesale and retail.

But when you drill down and you actually look at the inventory component versus the sales component, what you see is that the problem here is that sales are slowing much faster and that the inventory accumulation is pretty solid. It's not eye-popping in any way. What's eye-popping is the deceleration in sales.

So, again, it gets back to this idea that there is a demand story here. It's not just a function of the trade war boosting supply of inventory. It's that companies are finding that, yes, they ordered early as much inventory as they could but they still overestimated because the sales just continue to disappoint.

And then on the next page [Page 5], I think this is an amazing chart because in the past, when you've seen – time was when inventories were the thing that led you into recession. This is

before just-in-time inventory management, when companies would miscalculate. And that would be the thing when they over stockpiled, and then they'd have to liquidate and that would send us into recession.

You can see on this chart I identified that, actually, inventory peaks were normally the thing that caused the Fed to shift its policy and shift to cutting rates. I've highlighted there in all those episodes that the peak inventory was associated with a first rate cut by the Fed.

And this time, in late 2015, the Fed decided that was the time to raise rates in the face of the largest inventory overhang we had ever seen in history. So it's again an indication that they completely miscalculated back then. And obviously, as you can see, we're still facing a pretty substantial inventory overhang, which really –

The only reason I bore everyone, including myself, talking about inventories is that this really is going to be critical in terms of the outlook for profits. I keep coming back to profits. Maybe I'm incorrect about this, but I feel like that's the thing that is driving the stock market higher in the face of all the weaker economic data that we've seen.

All these indications that – PMI is the weakest since 2016 and these inventory numbers are the steepest we've seen since 2016. And they just brush it off with, I believe, this confidence that the profit hit is just this trade story and then, as we get into 2020, we're going to go back to double digits.

The S&P earnings forecast for – the analysts' estimates for S&P earnings next year are 10%. So, clearly, the prospect of this inventory liquidation cycle weighing on earnings and the idea that it's larger than just trade, that the consumer is really weak, isn't yet factored into the markets whatsoever.

Erik: Let's move on to Page 6, then. I think this is a very important chart because, to the uninitiated, corporate profits and the S&P 500 earnings are the same thing. It sounds like the same thing.

You're showing here they are not at all the same thing. Explain this chart.

Stephanie: Yeah, this has been really fascinating. As you can see on this chart, it's very unusual to see a divergence like this between corporate profits, which is the total profits for the US economy that is reported by the BEA who put together the GDP report.

Every quarter that they calculate total GDP, they also come up with a calculation as to what total corporate profits were. As you can see, their estimate of corporate profits has been substantially weaker than the S&P earnings numbers.

In the past, when you've had disagreements like this between these two measures, which I show on Page 7, generally it's been the BEA – the government broader statistics – that have

won the argument at the end of the day.

There are a variety of reasons for that. And three in particular, which I would argue are even more compelling today.

One is that, obviously, because they capture the entire economy rather than just the top 500 companies, it's a better grasp on what's happening more broadly. It's not idiosyncratic. It's not going to be a function of just Google pushing the numbers up.

The second thing is they tend to skew more closely to GAAP accounting. So these, let's say, accounting shenanigans aren't as prevalent in the broader corporate profit data.

But the most important reason, and I think the one that's really driving this yawning gap today, is share buybacks. The government measures its profits in total dollars. The S&P obviously measures profits on a per-share basis. So it is flattered by the reduction in share count.

As you can see here, according to the government, profits actually peaked at the end of 2014 and are down 4% in the time since. While the S&P shows them up 30%, largely because of the impact that share buybacks have had in flattering the numbers.

So this idea – this really gets to valuations in the market – if people believe these S&P earnings numbers are correct, then they can justify valuations on stocks.

If it turns out, as in the past, as you see on Page 7, that the BEA numbers are actually the more accurate numbers, then we're going to have a come-to-Jesus moment in the markets as that reality comes into focus.

Erik: Do we really have to have a come-to-Jesus moment? Or does Jesus come to the market in the form of accommodative monetary policy saving the day again?

I could go on for hours arguing why I don't think that accommodative monetary policy should boost markets. But you know what? History has been pretty clear for the last 10 years.

Stephanie: Yeah, I'm with you. And it gets back to my frustration. Actually, it's sort of for me an existential question – why do I do what I do in terms of trying to figure out what's happening in the economy. If the fundamentals don't matter and the Fed's going to rush in and just encourage people to take risks all the time, who cares about the fundamentals.

So it's a question I wrestle with a lot. Why will it be different this time than it has every time it looked like we were slowing and on the cusp of some market meltdown in the past?

And maybe I'm guilty of putting too much emphasis on it. But I think that what we've seen in terms of the monetary policy developments globally in the last couple weeks has been really important. And [it] represents, I would say, almost a tectonic shift in the way people are going

to perceive – or even central banks perceive – this (let's call it) repressive interest rate regime and the benefits of QE.

The first indication of that for me was the Bank of Japan, which basically has finally figured out that negative interest rates and inverted yield curves aren't exactly great for banks. And that having a healthy financial sector is fairly critical to having a healthy economy.

So they have basically said, we're going to try to scale back our purchases of long-dated paper and focus more on purchasing at the front end in a way to try to steepen the yield curve.

So, to my mind, this was kind of a revolutionary epiphany on the part of the Bank of Japan. It took 30 years, but they finally have started to figure out that maybe there is a point at which you can push rates too low. And so I think that was a real important event.

And, of course, you've had a lot of comments by people formerly employed and around the ECB who have made a lot of similar remarks of recent.

So I think there is starting to be a little inkling that maybe we've passed the point where these policies have a benefit. I can go through in more detail the evidence of – I like to call it the George Costanza effect, where every intention of the policy has actually had the opposite effect – where the idea was obviously to conjure inflation and, in fact, most of these policies have had very disinflationary consequences and have, I would argue, depressed growth rather than stimulated it.

Erik: Well I'd be particularly interested to get more perspective from you on how the end game plays out. Because what I see is a common theme in all of the smartest people that I talk to. They all tell the same story, really, which they express it in different ways.

But what they say is, look, in the end, economic fundamentals always have to win out. But central banks have more power than anybody else to delay the inevitable. And so that's why we've been 10 years of this. But in the end, economic fundamentals have to be the deciding factor.

Well, my question is, okay, what defines the end game? What causes the end to come? What causes the expiry, if you will, of the Fed put?

Is there reason to think that this regime of accommodative monetary policy enabling stock buybacks, allowing markets to just grind higher, despite you and all the other smart people saying, guys, the economy is not as good as everybody thinks?

The economy is not as good as everybody thinks, but it hasn't stopped markets from grinding higher. What's going to be the catalyst or the thing that changes that? That brings about that end game?

Stephanie: Well, I keep coming back to this corporate profits story. It's why I've spent so much time really drilling into these numbers. Because I think that, obviously, you need to have that story to support the valuations, to justify the valuations.

And if you get to a point where people start to say, hey, maybe we're not going to have 10% earnings growth next year, maybe the number is actually going to be zero – I have a hard time believing that's not going to have a real impact on the stock market.

On Page 9, this is exactly what we had at the end of last year. For all of 2018, the estimate for this year's 2019 earnings was 12%. And, basically, we went through almost the entire year of 2018 stuck at this 12% estimate. And then in the fourth quarter the wheels started to come off and people realized, hey, maybe we're not going to get 12% earnings growth next year.

And I think there is a really good chance that we get a repeat of that this year. And then going to have that at a time when it's not clear that, again, this stimulus, this Fed rushing in, that Pavlovian response to come rushing in with the fire hoses, is necessarily going to solve the problem.

It may. But I really think that we're now at the point where we're already three-quarters into recession for profits.

And if you throw out there to the markets, hey, next year is going to be pretty bad too and we have no prospects of pro-business fiscal stimulus coming out of Washington, quite the contrary. We've got real dysfunction and impeachment talks etc. that will bog down anything there for a while.

You know, it comes back to the Fed.

And then you start looking at what is the impact – what's going to be the benefit of cutting rates from here and doing more QE?

And you look at the financials. Clearly, they're already struggling with the slope of the yield curve and the level of interest rates right now. You are seeing consumer delinquencies pick up in the non-mortgage base. You've been seeing that for a while. So there is a deterioration in credit quality.

At the same time, banks are already struggling with that interest margin. So I think all of that is swirling around.

And if you start to see this profit story ricochet through the credit markets, which is hard to believe, that corporate credit spreads start to expand as the profits outlook deteriorates, then you really set in motion the negative feedback loop pretty quickly – where, as credit spreads increase, the funding for share buybacks disappears because they've all been funded with cheap debt.

And that then takes another peg out from under the stock market and also hits earnings. Because, again, they have all been flattered by these share buybacks.

So you create this vicious circle where, the wider credit spreads get, the lower the buybacks, the worse the earnings. And then that feeds back to credit spreads, which blow out farther still.

So I can see that situation setting up pretty quickly.

And you puzzle as to what's going to be the catalyst. For me, I keep coming back to the profit story as the catalyst because I think people are still in fantasy land about what earnings are going to be next year.

Erik: So are you expecting a fourth quarter '19 risk-off event on the scale that we saw last year? Or is the more accommodative Fed policy going to put a damper on the downside risk?

Stephanie: I think there is a really good chance that we see a repeat of the fourth quarter meltdown this year. I think that – the chart on Page 9 – I expect we'll just repeat the pattern and those earnings estimates will get slashed. And that will create some real turmoil in the markets.

At which point, people will then start to scratch their heads, like, does the Fed really have a handle on what's going on here? And does cutting rates more and expanding the balance sheet more – whether it's non-QE QE or real-QE QE – does that really set us up any better?

So I think that, for me, that could be the catalyst.

The other side of it that's kind of silently going on in the background – and, to be honest, I'm just starting to think about this and try to figure out what the impact is.

But on Page 13, the doomsday scenario is that the whole repricing of risk happens and it reveals what the Fed and the central banks globally have done through their years of repressive interest rate regimes, which is to silently bankrupt all of the pensions globally.

Essentially, these unfunded pension liabilities have mushroomed like we've never seen before. And they're completely untenable. For the US economy, we are looking at over $6 trillion in unfunded liabilities now, with stocks basically near all-time record highs.

So you've had this massive rally in risk assets, and yet the funding deficit has actually expanded in that time.

And one thing that I'm starting to think about a little bit is that these guys, in their efforts to make 8% returns in a 1% risk-free world, obviously they went to every corner of the credit

market and bought levered loans and all the most toxic stuff they could get their hands on to get that yield.

They also got really big in all of these unicorn companies that are now starting to be revealed to be not so fabulous – the valuations on these companies were completely fantastical.

So it's going to be interesting to see how that plays out from the pension standpoint.

Do we see a lot of these pensions – state and local governments – having to put more money into their pensions because they have to write down a lot of the positions they had in those companies?

It's just something I'm starting to think about. But I think that's going to be fascinating to watch as this cycle plays out. Because, obviously, between Uber and WeWork and Peloton, you've had a lot of these companies where the valuations that were placed on them were revealed to be, let's say, a tad excessive.

Erik: Stephanie, you make such a terrific point about unfunded liabilities. Something that I have long predicted is that there is going to be a major political agenda around some kind of helicopter money to provide – and of course, the view of the politicians who favor that, they would describe it as a solution to this problem of unfunded liabilities. They don't see it as exacerbating that problem.

How do you think this might play out? And would you agree, first of all, that the upcoming election year might be when this starts to become a major issue? And if some of the politicians were to maybe misinterpret MMT a little bit, in the interest of interpreting it to mean it's okay to just print money like crazy and spend it on social programs without taxing anybody, what would the potential consequences of that be? And how might that play out?

Stephanie: Well, this is the terrifying scenario that I try not to think about too close to bedtime, because it's just – it would keep you up all night. But it's really hard to envision us going down the road, at least as I've laid it out and as I see it taking shape, without getting to this MMT moment.

I guess MMT, obviously, is a terrifying prospect for anyone who values hard money. Whether it's MMT or QE, it's all variations on that same theme.

And I guess the best I could hope for is that if they were to pursue some form of MMT, which, as you say, seems almost inevitable, that it will at least be part of the discussion that they would explicitly tie the program to funding the pensions.

I mean if they were to, let's say, allow state and local governments to issue bonds to fund their pensions and expressly bought those bonds that were issues to fund the pensions, then at least we're not having some social agenda that's being pushed through this MMT money growing on

trees. So it becomes less of a debate about where you stand on different issues.

Because I think one thing that's clear is that if (pardon my language) the shit really hits the fan and these pension liabilities double or triple, which seems pretty easy to happen based on what we saw happening to them during the global financial crisis, there is clearly going to be a hue and cry to bail out these pensions.

You can't bail out Wall Street in 2008-2009 and then leave all these workers who, by no fault of their own had their pensions invested in sub-Saharan real estate or whatever, suddenly be disenfranchised and have no money for retirement.

So I think that is definitely going to be a discussion. And, like I said, the best I can hope for is that they do something where they limit it to something that's funding the pensions directly.

Erik: I don't think that's the agenda that most of the politicians that are thinking about this have in their minds. But I'll keep my fingers crossed that they're listening.

I want to come back, though, to the corporate side for a minute, because we skipped over Page 10 which really caught my interest when I looked at the slide deck.

I think I hold the record for the guy who's been too early more times than anybody else to thinking it was time to short the junk-bond market. And I've lost money every time because, as you know, the carry cost of that trade is very high. You've got to get the timing pretty close to right. And I keep thinking this is so crazy it can't continue. And then it just accelerates.

But it looks like you're starting to show some divergence here on Page 10. Is it finally time to short the junk bond market?

Stephanie: Gosh, when I look at those charts, it takes every ounce of self-restraint for me not to run out and just short junk myself.

But, yeah, unless you believe, which I guess people do, that this slump in the ISMs (both on the manufacturing side and the services side) is temporary and it's immediately going to bounce right back – unless you believe that, I would say it seems pretty clear that these risk assets are really hanging out over their skis. And there's going to be some repricing there.

And, again, when I couple that with my outlook on Page 9, the revision to next year's earnings estimates, I just see this setting up as this – where we're really going to see some big moves in the fourth quarter, I think.

But, like you, I've thought that it was time before and then was really frustrated and chastened.

But it's really hard. It's not just the ISMs too. If it were just these two charts, maybe you could dismiss it. But it's not.

We’ve seen so many indicators – again, coming back to the inventory-sales ratios and discretionary spending – that this is a much broader story and it’s not one that can be readily dismissed as a function of the trade war and global slowdown. This is really something that has roots closer to home.

Erik: Stephanie, I want to make sure that we touch on gold in this interview. You’ve got a chart on Page 14, but why don’t we broaden out to the bigger picture?

It feels to me like, okay, finally it’s time for – the argument’s been there. Grant Williams has been making this argument for years and years. But the strength of the dollar and other factors have stopped gold from really making an advance.

It seems like the gold bull market that so many of us have anticipated is finally upon us. Would you agree? Do you think that we’re overdone here? Should we still expect a correction? And where do you see gold in the next several years?

Stephanie: I’m about as gun-shy about that as I am on the credit spread side because – I’ve said it so many times before. But I am impressed with gold’s performance in the face of what has been real dollar strength here. So I think it does feel like it’s different now, as dangerous as it is to say that.

And I think that maybe in part that reflects this increasing recognition that where we’re going – if we have a real slow-down here, if the current situation in the economy devolves – is not a good place.

We’re going to do more QE. Maybe we get into MMT. We’re going to see a lot of these candidates in the next year get up and express some views that I think will be pretty scary to the markets. And I think that gold is sort of reflecting an increased possibility that we see something in that direction.

That chart on Page 14 is an interesting one, just because it’s been a real signal flare of issues in the past, be they domestic or foreign, or economic or financial.

But, generally, when gold is outperforming copper, basically what you’re doing is you’re saying that the #1 (let’s say) metallic barometer of financial security versus the #1 metallic barometer of economic security, Doctor Copper sort of being the preeminent indication of the global economy.

When gold starts to outperform, it’s been a sign that trouble is brewing. So I’ve denoted all of the financial crises that we’ve seen when we’ve been at these levels in the past.

And maybe it’s kind of a neat way to tie this all up by pointing out that the last time we were at these levels of gold outperforming copper was 2015, before the election turned everything

around. We were really clearly on the cusp of a recession back then and now we're every bit as high today. So that's going to be interesting to watch.

But I do think that gold is really starting to reflect not just what we're seeing here domestically but this idea that central banks maybe have now pushed to the point where they've essentially –

These unfunded liabilities of pensions, not just here in the US but around the globe, are so extreme that the next phase of monetary policy, when we have the next downturn – whenever if it's coming now or next year or the year after – is going to be so enormous that it really could shake the foundation of fiat money.

Erik: And finally, Stephanie, I noticed that your website, macromavens.com got a facelift recently. What's going on there? And what can people expect to find when they get there?

Stephanie: Yes, I have undertaken a facelift on the website and now people will be able to see over the 17 years – I can't believe it's been that long that I've been at this – some of the major calls I've been making, which until recently have been accessible only to the institutional investment community, and I'm now allowing some high-net-worth individual investors to get to benefit from these insights. I'm hoping that people will take a look and see what we're all about over here at MacroMavens.

Erik: And, again, the website is macromavens.com.

We didn't get to all of the charts in Stephanie's chart book, but I do highly recommend that you download the chart book. The charts are all very interesting. And, again, you can follow up with Stephanie at macromavens.com.

Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.