Alex Gurevich: Bond Yields, U.S. Dollar, Equities & more

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Erik: Joining me now is HonTe Investments founder and fund manager, Alex Gurevich. Alex, I am really looking forward to this interview with you specifically because as our regular listeners know, and I know you're a regular listener yourself there's three macro questions that I number one am convinced you have to answer in order to understand where we are at this particular moment in markets. And number two, which I personally have no clue what the answer is and that's why I rely on smarter people than myself such as you.

So let's just recap those; are regular listeners already know these. The first is here we are at almost zero interest rates, we've been below 50 basis points, we're back up to wherever we are this week 60-75, we've been close enough to zero that if you believe there is a zero bound on the US 10 year, then by definition, the 38 year bond bull market has to be ending. So is it ending? Or is it true that negative rates are possible? And if so, how negative? Are they possible?

Question number two, are we on the cusp of a secular shift from disinflation toward inflation? And if so, could it be as big as the inflation that began in the late 1960s? And particularly if that is true, is that something that really starts to run away in three to six months or three to six years? How long does it take for that inflation shift to happen if it's happening?

And finally, number three, US dollar. Are we looking at the beginning of a secular decline, as some people have predicted? Or is this just noise that we've seen so far? Where do you want to start with those three big issues Alex?

Alex: Okay, well, first, it is very good to be back, it's always a pleasure. And the questions you are asking are of course paramount and central to understanding at least the US markets, but as always, US markets are central to understanding the whole world.

So I would probably like to start with the first two questions because they're very interlinked. And the third question regarding the dollar is definitely also connected with the first too but let me first think through the interest rate market.

One of the things that I believe really helps long term profitability is looking at historical patterns, the power of historical patterns never ceases to surprise me. An example of that would be just to step aside for a second, I even posted that tweet and it got a lot of reaction. I said, somehow the inverted yield curve in 2019 has predicted the COVID recession. We don't know how we did it, but somehow we did it right.

So when certain things happen, then certain things happen after them and that is the pattern. They don't have to happen every time that they skew the probabilities quite a bit. So when I'm looking at the pattern of US interest rate behavior, what I've seen in the past is, whenever the recession comes, we'll have shock rates fall dramatically, usually in a steepening fashion, then there is some kind of relief liquidity and things get better.

And then very quickly market re-prices actually into the new wave of tightening as if which and all actually quite irrationally reprises into tightening. That happened both in 'O9 and 'O1,'02 that after recession, markets started to think like, oh, rates are gonna go up in a few months again, that actually never happened. And that's a great opportunity to bet against rates going up in the near future.

And then we'll have kind of a second wave then, well, we're not actually out of the woods were muddling through the stock market start in a new grinding bear market and rates really go down. This would be my instinct to look for that but we already have a lot of divergences from this pattern.

First of all, the original rates rally was much more flattening than it is historically, even to my surprise, the curve moved much more in parallel and the stock market kind of didn't really act the way it usually acts. I mean, if people looked for a second wave of sell off maybe this coming, but it definitely was not in a hurry to come with new highs being made. And everything just looks funky and different in this environment and looked patchy about what things are different.

But it is still important to remember that massive sell offs, massive sudden sell offs and fixed income markets happened at that juncture, then it doesn't answer your question of whether we can go negative rates. But this is just a word of warning that even if you do think that was going to go to negative rates, there is a scope for sudden, very rapid sell off in the US fixed income market, which could eventually trigger accelerating convexity so low, I haven't seen it yet, but it might happen.

So that's the first caveat, the second caveat obviously we know that there is a lot of resistance to using negative interest rates in the United States, it may or may not happen in the future. Honestly, it is hard for me to say, but I am increasingly thinking that we might be able to muddle through without negative interest rates.

And that links to your second question, do we have to have a catastrophic rise in inflation, that is definitely something that is being discussed because sooner or later if you make more of something it loses value, if you make more dollars, cash dollars, sooner or later cash loses value. So far, all of this loss of value was loss of value in terms of assets. That is, cash has been devalued relative to assets, if had not been actually devalued, relative to services yet to any meaningful matter.

But I think there is a scope for that, in the environment of the limited supply of services, and a lot of fiscal and monetary impulse, actually letting people spend money and some pent up demand for services because even though you can make an argument that people cannot have dinners out for the dinners they missed the last six months. If you let people go out now, they will spend probably more than they would normally spend because they will be like, hey, I want to catch up on my travel, I want to catch up on seeing my friends, I want to catch up on all my favorite venues. And all of a sudden they feel those venues operating at 25% capacity, that does create some kind of supply log jam.

So whether it is real inflation, inflation that becomes hyperinflation, in terms of showing up and headline numbers I think there is a lot of scope for high inflation and high headline numbers in this environment, will the Fed really need to lower rates? I don't think they need to go below zero for showing high inflation headlines, staying here will be pretty easy. And in this way, I am totally in agreement with your recent guest Juliette de Klerk, who I have a lot of respect for, in terms of her intellectual framework that real rates could go way down, we could very easily see a 3% headline inflation duplicable headline inflation and meanwhile Feds staying very close to zero.

This is not saying that I'm saying that hyperinflation is unavoidable. But it is saying that headline inflation at least has a very large scope to tick up. And in this environment, yes, we might have seen the end of their rapid bull market because if inflation goes back up there is really no reason for that to become any easier.

Furthermore, very surprisingly, kind of like it's a contrary way of thinking, but I think if inflation does go higher than we think and there is overheating going on, on that side, there might be some scope for interest rate hikes, even before people think. And this just goes back to my old thesis that I even put forward in my book, which was written five, six years ago.

There is a negative predictive power to interest rate markets whenever interest rate markets predict hikes in the future, like not an immediate future because usually the policy predictions are correct for the first six months. But policy predictions out to three or four years, usually, whatever the market predicts kind of the opposite happens. When in the past market predicted rapid returning to tightening environment has never happened nowadays, the market predicts us staying at zero forever, maybe we'll be surprised and the hiking environmental come sooner than we think.

And the last caveat again to throw another wrench in this perfect machine. If you look actually the 30 year bonds instead of 10 year bonds, the yield is still fairly high 1.4% relative to global bonds. And there is quite a bit of price appreciation left if they do happen to go to zero. That's because of convexity or if they go negative then like of course, all bets are off, they could still double in price.

That makes the betting on interest rates in the US somewhat complex, even if you have a bias towards my bias right now, we still at high inflation, but also the Fed staying put, which means that it's hard to make money in the long run by shorting bonds. It is risky to be long them, it is risky to be short them and even the very simple character traits like buy 70 a sector and carrying because rates will not go up in the next seven years. I don't think they're entirely safe. I don't know if it helps at all or not because I just threw stones in every single direction.

Erik: Let's move on to the third big question US dollar. Are we looking at the beginning of a secular decline as some people have predicted and opined or is this just noise that we're seeing right now?

Alex: I think the dollar decline is quite reasonable and expected. And I would think that again, looking through what I spoke before, given that if we go to this paradigm of very negative interest rates in the US, it will continue going through very easy policies.

I think that there is a lot based on historical pattern, I think there is a scope for further dollar decline. I am a little bit reluctant yet to call them major secular bear market on dollar but I think there is at least a cyclical bear market on dollar, I think we're in it and I don't think we're done.

That it in my mind is very reasonable for Euro, for example, to go to like a 130-135 level, it is not a high conviction for me. But if you put a gun to my head and asked me, where is it going to be next 135 or parity? I'll say 135. So I think it is very much aligned with everything that I see for the dollar to continue it's bear market.

And one of the counter arguments, the dollar bear market is a kind of the cleanest dirty short, as well, other countries are also debasing their currencies. Yeah, that's true but I also, again, I'm sorry, I'm kind of parroting your one of your recent podcasts. But I'm also agreeing with Juliet's view that it's much easier for US to debase the currency than for other countries, there is more scope for debasement on one side.

On the other side there is still forces of current account which are working against the dollar right now and there is also dollar benefited over the last few years, a lot from capital account surplus.

That is money flowing in US Treasury bonds and US stocks from overseas and that is been a bit maybe overdone and maybe with this flow reversing, it could be dollar negative as well.

So I think there is a definite scope for another 10-15% on dollar decline and then there is a scope for a more pronounced and bigger bear market. I do not yet see the dollar completely collapsing relative to other currencies but I do see potential for strong rise on precious metals, which is also a form of being short dollar, because precious metals like this is something that I talked on the podcast a year ago.

Precious metals, I expressed, when you are long gold in dollars, you are by default short dollars when you're buying gold. So if you feel it like other currencies might be debased as well, then precious metals complex is a good place to go to express continued short dollar view and this is the way I'm living.

Erik: I want to pick up on that conversation that we had almost a year ago. You talked at that time about the connection between bonds and gold and you talked specifically about the denominator issue of the dollar and understanding the gold price. Why don't we for the benefit of any new listeners who didn't hear that interview last November. Give us a quick recap of what the conversation is about and then give us an update on your perspective and how it's changed since the last time we spoke to you.

Alex: Yes, well, last time the conversation started with a discussion that I heard from a lot of sources when people were puzzled by the fact why dollar was performing well relative to other currencies and meanwhile, gold was performing well as well. Because historically, it seemed to people that there is this negative correlation between gold and dollar. And what that pointed out was that there is no real meaningful negative correlation.

It's what I call the pathological correlation, the correlation between gold and dollar just stems from the fact that gold is as it stays expressed in dollars. While if gold was trading in euros, there would be no correlation between gold price and dollar, well, I don't know maybe they would be but I don't see it necessarily happening.

So there is a different one... when meaningful correlation and just pathological correlation which doesn't give any new information. So you cannot just assume that because dollar is a well performing currency that gold cannot be even a better performing currency. So in this case in 2019, the dollar performed well it was one of the better currencies and both performed even better being an even better currencies.

So that's all that mattered both dollar and gold went up and there is no rule of mathematical principle why both of those currencies could not be performing well. And this is definitely shifting this year when gold is still a better performing currency and dollar no longer is. So while in 2019 it made sense to me while I was long gold, but in reality dollar was taken out of the equation for me because I was long gold in terms of dollars, but I was long dollars in terms of other currencies. So what I was really long as is gold in terms of Swiss franc, Japanese yen or any other old Australian dollar, mostly currency that I really wanted to be short.

This year, I'm more inclined to actually be long gold and silver versus US dollars, that is a shift of the discussion I did. There was an interesting thing that I said back then that I got called on though it was maybe slightly misquoted. What I said during the interview, the way people called it to me that I said, when you're listening to central you should hit the pause button now and go just buy gold, don't even listen to the end of the interview, you have to go buy gold.

What I was really saying is that, not as an investment advice, is that people should buy gold, but that if you espouse a certain view and that was the view that was expressed by you, which was expressed by Grant Williams. I think we talked at that time about the long term prospects of gold, what I was saying that if that is the view you have you should just click the pause button and go buy gold. Because the future and the past of gold was very uncertain and even before COVID we had a lot of shakeups and weird things happening. Lots of ways if you were not in the trade, you could have been stopped out of the trade or stopped in on the trade multiple times.

Erik: That call proved remarkably pressions Alex, people who paused your interview and bought gold did incredibly well. Now as we fast forward, that was November of last year. As we fast forward to this week, gold has been consolidating, for the last couple of months almost, and just on an intraday basis today, temporarily gold poked its head down below some technical support levels. Although it's back above them, as we're speaking now on Monday afternoon, is it still that kind of, boy, just pause the interview, buy gold don't think twice, or has gold already moved up so much that maybe it is time to think twice before adding to a gold position in this current market environment?

Alex: I think this is definitely a good time to have a position that you want to have. Whatever from a technical perspective, you choose that this is a spot to add or not, that is not really my strong specialty level because I'm not very good at technicals. And very often when things go against me by a few percent actually I choose not to add because I don't want to be in a position of it falling further and pushing putting undue pressure on me.

But if my portfolio position is already under pressure, if depending upon how much risk space I have, I might add on the pullbacks or I might just try to sit it out and not put myself in a more difficult position. And I would also point out that when I say gold, it's kind of my euphemism for the whole precious metal complex that includes silver, platinum, miners, mining stocks. And I think investors should do their own analysis and choose which of those assets they like best, but those are all assets that benefits from increased liquidity.

I think that it is quite reasonable for this complex to consolidate, it has consolidated before in the previous markets and the previous bull markets took us much further in relative terms and I see no reason why this bull market would not. Of course, there are many ways it may fail, but the probabilities I think are skewed still to this bull market continuing much further. And my bias is towards not only gold, seeing new all time highs, but silver seeing new all time highs and eventually platinum seeing new all time highs and related mining stocks seeing all time highs, but all of them are very far away from those.

So from that perspective, I'm just cautioning gold looks actually expensive relative to the rest of the precious metals complex and it typically does in the bull market. So maybe it is time for gold to consolidate and some other things to pick up the torch.

Erik: Alex, you're mostly known as a bond guru. That's why I wanted to start with the questions about bonds, interest rates in US dollar and so forth. But in this environment, everybody's got their eye on the stock market and as we're speaking on Monday afternoon, we're seeing a new wave of selling causing some people to panic and say okay, this is it. This is the big one the big rally that we had off of the COVID lows that took us to new all time highs.

That was just a bear market rally on steroids that went to new all time highs but we're actually headed lower than the the march low and today's the big day where it all falls apart. I know that well equities are not usually your specialty Alex, talking to some of your staff they sent us a chart that I want to share with our listeners, listeners, you'll find the download link in your research roundup email. If you're not yet registered, just go to our homepage at macrovoices.com, look for the red button above Alex's picture, says looking for the downloads.

Can you talk to us about this chart Alex and how you see the situation for equities? And are people right to be thinking, okay, we're about to have a crash of the stock market?

Alex: I will start with going back to what I already mentioned a couple of times in this interview talking about historical pattern. Indeed, if you look at the regular historical pattern, it would be very likely that sometime about now or even earlier or a little late that would start a new wave of bear market. And because that has happened several times in the past, I am assigning a pretty high probability to that happening.

There is nothing particularly about today's a day that looks to me that today should be a turnaround day. In this recent pretty relentless bull market there were a few pullbacks but I can see how looking at the charts and like momentum indicators, you could kind of see that stock market is beginning to lose momentum. And I'm appreciative of that but in itself it doesn't usually worry me unless I take into account the general pattern of studying the second wave of bear market and top it off with election anxiety, possibility of uncertain election outcomes.

And all of those things generally kind of bet seasonality or at least for the immediate future. You combine all of this and I can see some anxiety around it. What I think was unusual about this cycle and why equities acted in a way which befuddled many people by recovering so quickly and going up so far is the difference in liquidity.

In the moment, I will explain how it ties up to the chart I'm talking about. If we go back to very fundamental question why stocks go down in recessions at all. Why do stocks go down? Because if you of course, every recession affects very hard some specific sectors.

For example, global financial crisis, meaningfully hit bank stocks, and some of them like Lehman Brothers, Bear Stearns never came back, some of them like Citibank got diluted beyond hope. In this recession, obviously, various travel related hospitality related stocks got hit really hard and some of them might be not coming back ever. They declared bankruptcy, they have the equity wiped out or not wiped out for some reason, that's a separate conversation, but probably will be.

However, when you look at stock market as a whole, for other companies, companies which survived down cycles shouldn't actually be valued any differently than in recession and otherwise. If anything, low interest rates should offer them support for their long term discount models and the depth of their competition makes the most on the deeper. But we never saw it before, but we see at least not so immediately and strongly as we see it on the cycle with the companies with moats started to actually perform extremely well right away.

So why intellectually, if you have companies as an ongoing multi decade concerns, we see people saying look at how unreasonable that the stocks are performing so well relative to blah, blah, blah, that where the economy is, is where the GDP is with employment, but why this connection exists to begin with, my framework is that it exists because of liquidity. What happens in recession is that liquidity dries out, and hence, people have less money to buy stocks?

I can't really go through all the mechanisms of that but you can imagine it, less money to buy stocks they always sell us, stocks go down. It has nothing to do with any kind of intellectual long term projection for stock market. But that pattern became so pervasive that people starting to trade that pattern that as a recession, stocks should go down.

What's happened in this recession, there was indeed a liquidity shock, very short, which really crested in March. But the policy response was so unprecedented that liquidity shock was reversed into positive liquidity shock. And all of a sudden, people started looking at books and saying, well, whether rationally or irrationally as a system, kind of acting as one irrational one kind of beast that just mechanically responds to impulses. But the cohort of investors decided that while looking at how COVID will be gone, this whole pandemic will be over but there is this ocean of liquidity in the market and their discount rates are low. And companies with good moats will just continue staying in business so why not buy them at a higher price and that's what started to happen.

So that to me is the explanation of why people were so befuddled by rising stock markets and this is going back to our earlier conversation when I mentioned the fact how in cash we are having inflation or in the form of cash being devalued relative to other asset classes. And that totally makes sense because a lot of cash is being printed, the supply of cash is increasing relative to other asset classes.

So cash is an asset class which is by the way not a risk free asset class, it's just as risky as any other asset class. Cash is only risk free as measured in cash. If you measure cash in Bitcoin cash would be very risky. If you measure cash in gold it would be very risky. If you measured cash in stocks it will not only be risky, but a continuously declining asset class like an awful asset class to be in right with you reverse that and so that stocks they are benchmarks and look how cash is performing right? And you look at several hundred years of performance.

Would you ever want to hold this asset? Probably not, not even when it looks definitely good. So that risky cash asset became an oversupply and it started to go down against every other asset. So people who try to short stocks and whatever name those stocks, even if they're short some stocks that they think are tremendously overvalued. They're shorting Tesla, for example, and think Tesla is overvalued or whatever else they say, right? They are selling stocks of that company, but in what are they asking for it? They're not asking gold for it.

They're not asking buildings for it, they are asking for US dollars. They get US dollars and by doing this, by definition, whenever you are shorting or selling a stock and asking for dollars, basically you are going to the Federal Reserve and asking them, please, can I have some of your dollars? Please can you give me some of these assets that you can print out costlessly in as much quantity as you want? And what does the Federal Reserve do? They say, please have you dollars as much as you want to, oh, you want to short some more? Here's some more dollars for you.

Now, what do you think is going to happen to this asset class in this situation when there is no resistance from the fed from supplying dollars to all people who want to have dollars instead of assets. Clearly, sooner or later the dollar will decline on average with regards to most assets.

So, in fact, in my second quarter investor letter, I did this kind of experiment where I replaced the word cash dollars, by the word Beanie Babies. And then I started to rewrite typical investment statements by using the word Beanie Babies instead of dollars, because Beanie Babies is a classic example. Right they are almost costless, you can produce as many as you want of them.

They could be in Vogue, but do they have to be in vogue forever? But if an asset manager is saying, you know what I'm being really prudent right now, I'm keeping all my portfolio Beanie Babies in waiting for things to stabilize. And when they stabilize, I'll have plenty of chances to sell my Beanie Babies and buy gold or stocks or real estate. Maybe I'll miss the absolute bottom but I know I'll always be safe in Beanie Babies.

So that that sounds totally ridiculous, right? The same ridiculousness occurred with cash. And it's happened twice in the history that happened on March 9 when people piled into cash and got nailed and they piled in the cash in 2020 and get nailed. And I would argue that being in cash at times like this could be viewed as violation of fiduciary responsibility because you put all your money in an incredibly risky asset that is currently being devalued.

Now, from this philosophical speech, I want to go to the chart. The interesting thing about this chart that I posted is that I created it in 2014 by trying to understand how liquidity changes in interest rates effect the stock market. And if you look at the chart, there is a blue line, an orange line and they go up to the shaded area.

The reason why I separate the shaded area is that's how far I published the chart when I wrote my book and what was happening after was. So the chart was fitted back to them and it was incredibly crudely stated.

It's just a point difference, I'll explain what it is in it but before I explaining what the chart does, I'll just say that it was just the first very simple crude, not calibrated analysis. And even that very crude analysis provided a very good fit, which continued for the next several years. So the blue line on this chart is their momentum on interest rates. What it tells us where in 10 year yield is now relative to where it was two years ago.

So if the yield is higher, we go into negative area, if the yield is lower we go into the positive area, so positive momentum on yields is when yields have fallen down. So the blue line goes above zero, the right side of the chart is the scale for the blue line and on the left side of the scale is for the orange line.

And what does the orange line do? It's two years shifted forward. This is what will be the change in the S&P 500 2 years from this point? So again, we're looking at it backwards for what has happened to the yield and we're trying to see what will happen 2 years forward.

Notice the orange Line stops two years before today because we don't know from any point of time over the last two years, we don't know how the orange line will resolve. Now the reason why I contested this chart is I wanted to avoid the fellow so that a lot of people are falling into. I hear a lot of people saying things like well, we'll look historically and actually low yields do not imply higher stocks if anything, the opposite or lower yields do not imply multiples expanding actually historically multiples contract during low yield.

This is an absolute fallacion and I will be very strong about this. These are fighting words. I think that is totally fallacious way of looking at the world because, of course, lower yields typically occur historically in times of crisis when multiples contract whether for good reason or not, and stocks fall.

This is not the questions we should be asking. We should be asking not where stocks are when yields are low, but where they will be after the yields are low. That's the only interesting question for investors. Does it make sense?

Erik: Makes perfect sense, how do we extrapolate from this chart in order to make money in the markets?

Alex: Okay, so in the chart the blue line tells us where we are and the orange line tells us where we will be. Now, if you see that chart starts in 1992 and this is the last time in the early 90s when the orange short is meaningfully below the blue line. As you see, it's not that there is no perfect fit with those those charts, that's not like perfect one correlation.

But you see the orange line almost always stays above the blue line. It's not perfect, you saw like in 2008 when there was a very massive stock market sell off the orange managed to drop below the blue line and also notice this is very uncalibrated.

What we're doing internally with real math is much more sophisticated and calibrated. But if you look at this very crude chart, you'll see that the orange line is always above the blue line. What does it tell us? It tells us that we have now 30 years of history that whenever yields have fallen stocks typically don't go down in the next two years, if the yields have fallen over the last two years, stocks do not go down over the next two years. Not that they don't go down entering, but eventually they perform well.

So the reason why I shaded the area in 2014 is because that's when I discovered this chart, that's when I posted it. And let's think of what happened afterwards, we had a 2013-2014 time of taper tantrum, interest rates have risen, what has followed?

What followed was the period of stock volatility of 2015-2016. As you see orange line, when you look at 2015-2016 it spikes up but then goes down shows a little bit of volatility but is well above the blue line. It does not allow it to fall below the blue line. So what happens afterwards?

2015-2016 you see the spike in the blue line, right? And this is the post Brexit interest rates. And it's very confusing because you have to stagger things a little bit, the spike in the blue line of 2016 corresponds to the deep in the orange line in 2014. Because and I know people will have to study it and think it through because what we see on the orange line is two years looking forward, what we see on the blue line is two years looking back.

So in 2016, we've had a big fall on interest rates and what the orange line shows us is how well stock markets have performed afterwards. And you see that it corresponded to a big spike and performance in stock market, which was the bull market of 2016-2018.

Now, when we're looking at 2018 and you see blue line going below zero and that was because we had a bear market for two years, and the rates have actually risen significantly. And see what happened in the next two years between 2018 and 2020 stock markets had quite a dip, but not to cross the blue line.

So now we're seeing the blue line going crazy up, why? Because bond yields have fallen down dramatically, which tells me that if this pattern persists, if the orange line stays above the yellow line, it means that the S&P 500 two years from now should be more than 750 points above where it is today or so. That's the rough conclusion, so if you believe in the chart on this pattern, it should make you very bullish on stocks.

Erik: Okay, so the outlook based on how you interpret the chart now is the S&P has about 750 points of upside from here over the next two years if this chart proves true.

Alex: Correct, but this is just one analysis and each such analysis is just one little impact on your life. And this is when and I'll be honest with you, I was getting a little more kind of bearish skeptic on stocks over the last few weeks.

But then I started to rehash this chart and I'm saying like well, but how can stocks really go down? Because what really this chart shows is change in yields could be really a proxy for the change in liquidity. You added liquidity so assets are gonna go up and it seems to be as as simple as that and you take away liquidity then you tighten and assets go down and what matters is not the absolute level of rates, but the change in rate.

It seems that like a change in the rates, produces the lagging impact on us in risk assets and gets you to hike and concurrently risk assets might still be going up. But at the end of the hiking cycle when the rates are now higher than they were before, that poses more risk for the stock market underperforming.

But notice, the underperformance is not a sudden thing over the last 30 years is the outperformance that was always happened that is, whenever we would drop the rates stocks almost invariably picked up. And with the only meaningful except there were a couple of exceptions that they let go a little bit on ‘01, ‘02 in ‘08, ‘09 when the drop was so high that it took them a little longer to get up, as you see, stocks actually do that quite a bit below the blue line there. So maybe we could.

So that would be like the scope for the error on this analysis. Those two situations and both of them happened in the event of the double dip, so that is the error scope. But even within that cap code of error given how high the blue line is, it is hard to imagine stocks being too negative from today forward, if that was if that analysis holds. And that is one incremental thing that makes me a little more constructive on the risk assets going forward.

Eric: Let me just play devil's advocate on this, Alex, because what's coming to my mind is if this is all about liquidity, it seems like one argument you could make is okay, well, if we see what the feds been doing lately and their reaction to the crisis that we face. And the possibility that we've got more crisis ahead of us, boy, they're gonna keep on providing more and more liquidity that really fuels your argument that stocks got to head much higher.

I suppose the counter argument though, would be that there's a growing political frustration with this notion that the bailouts are going to Wall Street, not to Main Street. And I think there's a big political component of the support for MMT, where people are saying, look, we've got to do more central bank balance sheet expansion, but we got to stop pumping that money into the financial system, pumping up the stock market, we ought to be using it to help people on Main Street instead.

So with those are maybe two opposite direction arguments for how liquidity could be affected by policy. Do you factor those kinds of things in? Or how do you think about where we are in the current geopolitical and US political environment and how that might affect some of your prognostications about liquidity in the market?

Alex: It's a good question, but I'm kind of sympathetic to the fairly commonly held view that fed liquidity goes more directly to assets and less so to goods prices and wages, while fiscal impulse have more potential to go into actual consumer inflation. I guess, after a certain point fiscal impulse would have to go into consumer inflation one way or another, that the commonly held belief, and I somewhat subscribe to it. But if we're having like consumer driven inflation, I think it's also positive for stock prices, at least on nominal basis, at least nominally stocks are gonna look good. And also being ability to raise prices is not necessarily a bad thing for stocks, even as wages go up and asset prices inflation if it's more on the side of the Fed, will probably be supportive in the other ways.

And I think it's kind of like a water pressure system, what is going to pour one way or another. If for example, we have some kind of gridlock in DC and there is not enough fiscal impulse, well, the Fed will have to do more. If there is more of MMT views then maybe Fed will have to do less and there'll be more spending.

But either of those things will be probably supportive to certain trends continuing. That's what I feel like even though I fear legitimately what the next few months can bring, I feel that if the next few months commotion will restrict the fiscal impulse then the Fed will continue being aggressive, especially if we go in any kind of other down wave in terms of risk and economy, federal will only do more and on the flip side, they may not have to do so much. If the fiscal side is coming through stronger, either of those cases, I take us in the long run constructive for at least nominal price of assets.

Erik: Alex before we close for the benefit of our institutional qualified purchasers who are eligible to invest in your fund. Tell us a little bit more about what you do at HonTe Advisors.

Alex: We run a macro fund, our focus has been always long horizon discretion or a global macro, that is we choose trades that are likely to work over the long horizon with a multi discretionary fund with some systematic assist. People who want to find more information about how we work there is a website honteinv.com so it's like the name of HonTe honteinv.com and there is some public information available there. Which is any interviews or any other piece of information which are available broadly but also qualified purchasers can try to register on the website and get more if you're interested in investing, you can get more information from us on what we do.

Erik: And for the benefit of our retail audience who is not eligible to participate as qualified purchasers. I think your book, although it was written several years ago is probably just as relevant to today's environment as the day it was written. Tell us a little bit more about "The Next Perfect Trade".

Alex: Just "The Next Perfect Trade" had a subtitle "The Magic Sword Of Necessity". In this book, I qualitatively describe the system of selecting trades that goes into my strategy that as I described the sequence of objective parameters, which makes the trade likely to make money over the long horizon. And this system became in a much more rigorous and formalized way of actually hammer running the portfolio.

It's a way of looking at trades and thinking what type of trades are likely to make money and this this is this is my forecast agnostic approach to constructing portfolio. And in this book, I don't give any investment recommendations, I just go through some examples of trades from my past and my thoughts. I go through chapter by chapter about various principles, which I think on a qualitative level makes make trades even more profitable in the long run. And when ideally when all of those align, you get the perfect page.

Erik: Well Alex I can't thank you enough for another terrific interview. We look forward to getting you back in less time than it's been since last time for another update, Patrick Ceresna and I will be back right after this message from our sponsor.