Jesse Felder: Macro Roadmap for the S&P500

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Erik: Joining me now is Jesse Felder, publisher of The Felder Report and former hedge fund portfolio manager. Jesse, it's great to have you back.

Listeners, Jesse did prepare a chart deck to accompany today's interview, you'll find the download link in your research roundup email. If you don't have a research roundup email, it means you're not registered yet. Just go to our homepage macrovoices.com, look for the red button above Jesse's picture that says, "looking for the downloads".

Jesse, great to have you back. I've been starting all of our interviews asking people about boy, so many smart people have turned into inflationist in the last year or so where do you stand? Are you an inflationista as Louis-Vincent Gave called it or are you still in the deflationista camp?

Jesse: I am in the inflationista camp and, Erik, I gotta say, it's great to be back. You know, it was, I think a little over a year ago when we last spoke here. And you know, right before the COVID crash, and it's kind of been an interesting 13 months since then. But yeah, I am in the inflation camp, I think that we're going to see, you know, to me, one of the things I look at is the, you know, just prices paid components of a lot of these things that we've seen, you know, ISM services came out this week. But businesses of all stripes are all basically complaining about rising cost pressures. And I think we're seeing that in tons of different sectors, from manufacturing to restaurants. I think we're gonna see some pretty strong wage inflation over the next few months, which is one of the things that can be a driver of inflation going forward.

Erik: Jesse, some people are saying this is just a little cycle of inflation. Other people are saying, look, the game has changed, where we really politically are seeing both more emphasis on fiscal spending, and also an emphasis on getting money into the hands of Main Street as opposed to Wall Street, and maybe not really pursuing QE the same way that that we used to in the past. Do you see this as a secular shift to inflation? And regardless of whether or not you do, what do you think the main drivers are?

Jesse: Yeah, I do. I think we're seeing some, you know, obviously, some cyclical signs of inflation just based on, you know, the base effects and things that, you know, the depressed numbers we saw a year ago. So the year over year numbers are going to show kind of cyclical inflationary pressure, which we're seeing, but I think I'm also you know, from a secular standpoint, and inflation bowl I do think that there are a number of dynamics. One you mentioned, which is really important is we're seeing fiscal stimulus this time, that is dramatically. more significantly larger than what we saw during the financial crisis that, you know, obviously QE, everybody likes to say that, you know, QE was going to be inflationary. There were a lot of warnings 2010-11, that this is going to cause problems and those never materialized.

And I think that was because we entered into a period of relative fiscal austerity with the rise of the tea party and things. We're just not seeing that, we're seeing the exact opposite. In fact, I think a lot of people that are arguing for increased fiscal stimulus today are pointing in that earlier period and saying, we made a mistake and not doing enough fiscal back then. We're certainly going to avoid that mistake this time. I think we're seeing, you know, multi-trillions of dollars of spending.

And I think the other side of it too in terms of longer term secular dynamics are two things that you know, demographics, and deglobalization. So I think, you know, those are two of the big factors that have proven disinflationary over the past several decades, demographics to me, you know, I look at the baby boomers coming into the workforce as a huge, you know, kind of supply shock, labor supply shock that helped, you know, to depress wages and things. And at the same time, we had, you know, huge labor supply shock with globalization. It's able to send production overseas, both of those together really, I think, kept prices under wraps.

But now, I think what people are under appreciating today is the fact that all of this monetary policy has created a huge incentive for people who over the last 10 years or so that you know, people who have probably stayed in the workforce longer than they otherwise would have, because of the weak economy and, you know, retirement accounts and house prices, you know, went way down. Now, we're seeing just the opposite. This time, we're seeing stock prices elevated. All these retirement accounts have, you know, done really, really well and home prices are again soaring.

So I think that's a huge incentive for a lot of these people who have stayed in the workforce longer than they otherwise would have to now retire finally, and baby boomers leaving the workforce is the kind of the opposite of that labor supply shock. And is, you know, inflationary. Same thing with you know, China is no longer able to, you know, be the perpetual low cost supplier. They have rising costs and things now, and to the extent that we want to bring home, you know, production to the United States. And there's been a lot of talk about making supply chains more resilient. And these things, these are all kind of I think inflationary from a secular standpoint.

Erik: Let's go ahead and dive into your chart deck on page 1, you've got a chart of the S&P 500 on a fairly long time scale, and it looks like we see a megaphone formation here. What's going on?

Jesse: Well, I think, you know, this chart to me, you know, I'm primarily a fundamental type of value investor. But over the last 15+ years, I've really been integrating technical analysis into my process. To me, you know, the technicals today hold clues for investors and traders alike that are really important to understanding what's going on. I wish I could remember who brought this passage to my attention from Edwards and McGee that technical analysis of stock trends.

But the way they describe a broadening top pattern or megaphone pattern, or whatever you choose to call it, I think is very, like eerily accurate as to what we've seen over the last several years. And so that, you know, the pattern kind of dates back to late ‘17, early ‘18, when stocks kind of had a blow off right leading into the Volmageddon kind of mini crash. But the way they describe this is a broadening formation may be said to suggest a market lacking in intelligent sponsorship, that is out of control. A situation usually in which the public is excitedly committed and is being whipped around by wild rumors. Nevertheless, the fact that this chart pictures of this type make their appearance as a rule only at the end, or in final phases of a long bull market lends credence to our characterization of them.

To me, that's, you know, when you consider the extremely risky, highly leveraged strategies we've seen, you know, I mentioned Volmageddon, the short vol. trade. More recently, we've seen the YOLO call buying and you know, just absolutely off the charts. Bigger than anything we've seen. And then, you know, Archegos utilizing swaps to get five times, five-to-one leverage. To me, this technical description from Edwards and McGee is really a perfect representation of kind of what we've seen in the past three, four years in the market.

Erik: And on the next page, we're looking at margin debt, this time expressed as a percentage of GDP. I'm curious, I haven't seen it done that way before. And one of my criticisms of people who use margin debt charts is they usually show just the nominal value is like, look, it's an all time high. Well, yeah, okay, there's inflation. It's an all time high, you're not you're not correcting it to anything. I'm curious why you chose margin debt-to-GDP, as opposed to something like margin debt-to-total capitalization of the stock market, which to me would, would seem like a closer representation of what's being leveraged?

Jesse: Well, margin to market cap., the problem that I have with that as a measure is you're using, you know, as the denominator, something that you're trying to analyze. And so, to me, margin debt-to-market cap., it would be the same thing as trying to, I guess, analyze or give somebody advice about a smoking habit. And you know, by that, you know, you'd say, the larger your body mass index is, the less, you know, your two or three pack a day smoking habit is a problem and, you know, somebody would come away from that saying okay well the larger I get, the less smoking is a problem for me.

And so to me, I think that's what the message is for margin debt-to-market cap, the bigger the bubble, then the smaller that margin debt would appear to be a problem when that doesn't make any sense to me at all. And so I do agree, you have to normalize it somehow. And so to me margin debt-to-GDP, it just shows the amount of leveraged, you know, financial speculation, relative to the overall size of the economy. And to me, I think you have to normalize it with something other than the market itself.

And you know, the quote here, the reason I like to use margin debt, because there's so many sentiment measures, but I like to use real world kind of measurements to understand where we stand in terms of sentiment. My favorite quote, in terms of margin debt is from John Kenneth Galbraith, who said, even the most circumspect friend of the market would concede that the volume of brokers loans of loans collateraled by securities purchased on margin is a good index of the volume of speculation. So, I look at margin debt as the index of the volume of speculation. And if we look at it that way, then even a normalized margin debt figure shows that speculation is just bigger than relative the economy is bigger than anything we've seen in modern times.

Erik: Jesse, as we move on to page 3, this looks like a riddle for the statistics experts in the audience. You're drawing a distinction between the median stock versus the average stock. Why that distinction? And what is this chart telling us?

Jesse: Yeah, you know, so I probably should have prefaced this but I like to look at the market or even individual stocks or anything I'm trying to analyze from an investment perspective. Utilizing you know what my friend Todd Harrison calls the four legs of the investment stool, if you will. And that's fundamentals, sentiment, technicals and macro. So the technicals, you know, we looked out at the megaphone pattern, sentiment to me is, you know, we look at that margin debt as the volume of speculation. This valuation, you know, is where we start to look at fundamentals. And so when you look at the price-to-sales ratio of the S&P 500. Today, it's about 10% higher than it was at the peak of dotcom mania, which is, it's astounding to me, I never thought we would see valuations surpass that measure, which was slightly higher than what we saw in the 1929 stock market peak.

So we're higher than that today. Obviously, stocks are more highly valued than they've ever been in US history. But what is most interesting to me about this, is the median price-to-sales ratio of those 500 stocks is today 75% higher than it was at the peak of dotcom mania. So I think not only are we seeing another stock market bubble, but we're seeing one that the breadth of the current stock market mania is so much greater than anything we saw 20 years ago. The average stock, the median stock within the market is almost twice as expensive as it was 20 years ago. To me that just suggests, you know, back then, the bubble was relegated to a handful of sectors, you know, mainly surrounded, you know, tech, dotcom stocks, and eyeballs and those things. Today, you know, it's not just relegated to one sector, it's a much much broader bubble in my view.

Erik: Jesse moving on to page 4, what's going on here?

Jesse: Well, this is an earnings model that I came up with. It was really inspired by an interview, Stan Druckenmiller gave maybe a couple of years ago, where he talked about how he, you know, the difficulties he went through at the peak of dotcom mania. And, you know, he famously, was short some of those stocks into March of 2000. And then decided to cover those shorts and go long, right, as the market peak rolled over and started to crash. He got out of those positions and decided he needed to take a few months off and kind of figure out what what he was doing wrong. He came back in the fall of 2000. And he said he noticed that the dollar was rising, interest rates have been rising, and oil price had been rising snd that, you know, trifecta is typically a good leading indicator of an earnings recession.

And so I put together this measure, this kind of earnings leading indicator, based on just those three things. And you can see it does a pretty good job of forecasting where earnings are headed. Right now, we've seen, you know, a really nice earnings rebound, as we saw the dollar get hammered over the last, you know, year. Oil prices went negative obviously, and interest rates, you know, went to the lowest levels in history. That was all kind of a bullish leading indicator for the S&P 500 earnings. But now, we have seen obviously, a nice rebound and all of these things, well, interest rates going up, oil prices going up. The dollar has had a nice rally this year. So that all suggests to me that we're probably going to see an earnings peak sometime in the middle of next year.

But you know, people say okay, well, I don't need to worry about it for now. But as Stan has said, the market discounts, if you invest in the present, you're going to get run over. You need to look at what where's the market going to be 18 months from now. And 18 months from now, earnings could be turning negative again, or probably already into negative territory. And so the market is going to start, you know, this rally that we've seen has been, you know, discounting this earnings rebound, but the markets now going to start probably having to discount another earnings recession sometime in the near future.

Erik: And we're looking at profit margins versus labor share on page 5, what do we mean by labor share here?

Jesse: This data comes from, you know, the FRED St. Louis Feds website. And to me, you know, one of the things that people say, or people maybe don't appreciate about the stock market right now, is that over the past 10 years we've seen record high profit margins for the S&P 500, for the broad stock market, really. And this has really come at the expense of labor share of income. And so labor share is inverted on the chart. And you can see there's a pretty high correlation, especially going back to, you know, the early 70s between labor share and corporate profit margins. And essentially, that just shows corporations to the extent they raise profit margins, it comes at the expense of labor.

And, you know, Warren Buffett wrote about this back in 2001. 20 years ago, he suggested that this could never really persist. He was absolutely wrong, and that it's persisted a lot longer than he thought but he said if it did persist. It would be likely to cause political problems and I think that's exactly what we're seeing lately. Which is political problems in terms of, you know, labor deciding that it's getting frustrated, tired of losing share to corporations which are profiting on historical basis to a much greater extent than they ever have before in history.

So I think in order to kind of be, one of the things that's embedded in the stock market today, I think that's being discounted is that profit margins will remain at record highs indefinitely into the future, and that labor share will remain at record lows indefinitely into the future. But I do think what we're seeing now is a major political shift that puts this at risk. We're seeing, you know, the

Biden administration talk about raising corporate taxes again, and, you know, he's said he wants to be the most labor friendly president in history. Well, the way you do that is you lower corporate profit margins. And to me, it's very likely that it will head in that direction. To me, watching the developments on the political side of things, just makes it more and more likely. And if profit margins revert to a more historical average, you know, we're talking about a very significant change in valuations that would probably have to happen in order to reflect that.

Erik: Moving on to page 6, we're looking at stocks versus interest rates. And boy, if we look at where the chart is projecting at least. It would suggest that there's negative interest rates being called for here.

Jesse: Absolutely. I think, you know, this chart essentially shows, you know, the growth to S&P 500 ratio. Growth has obviously benefited, you know, since the really since 2006-07. You know, growth has outperformed value to historic degree, but it's also just outperformed the broad market to a significant degree also. You can see the correlation with this outperformance of growth to interest rates, falling interest rates, benefits, long duration assets. To me, growth stocks are the longest duration of risk assets out there. And so, you know, I guess it makes sense that falling interest rates would benefit growth to a greater degree.

But growth stocks have outperformed so much more dramatically than even can be justified by interest rates. They've come to discount negative interest rates. You know, look at the chart, essentially, growth by this calculation is discounting, you know, negative 50 basis points on the 10 year, obviously, the 10 years not negative 50. It's you know, 1.7 or something, something like that today. It's up, you know, a couple 100% from its lows. If growth stocks are forced to reflect the change in interest rates, I think that they have a lot of outperformance to give back. That's one of the risks faceing the market today, just based on interest rates. As you know, obviously growth stocks have been become the far and away leaders of the bull market over the last 10-11 years. So if growth stocks were to give up this outperformance, it would mean significant thing for the broad stock market.

Erik: You've got a fascinating chart on page 7, which I don't recognize what's going on here.

Jesse: Well, this is just a long term chart of the 10 year Treasury yield. This one was a chart I think I first saw Mehul Daya post on Twitter or perhaps in a research note from several years ago. But it's fascinating to see that even though interest rates have been in a long term downtrend. Every time rates have backed up, we've seen some sort of a, you know, financial instability kind of rise to the surface.

So obviously the 1987 crash happened, we saw rates go from 7% to almost 10% on the 10 year yield. That was not good for risk assets obviously. There were other things that contributed to the crash, but rising interest rates was definitely one. We had the great bond massacre in 94. But the peak of dotcom mania was also you know, in March of 2000. We saw rates go from just over 4% to over 6% during 1999. And I do think that's one of the things that contributed to the peak of dotcom mania. Obviously rates, you know, from 2003 to 2007 were in a rising trend and contributed to the peak in the housing bubble. You know, raise the cost of capital, and it throws a wrench into a lot of these, you know, bull trends.

Again, 2009-10-11, we saw rising interest rates again contributed to the European sovereign debt crisis. We have the taper tantrum in 2013. And then in 2018 obviously, I mentioned earlier. Early 2018, we had the Volmageddon crash after interest rates, you know, went from under 2% to 3.5-3% on the 10 year, and I call it the taper tantrum two. But you know, the fourth quarter of 2018 was really a time when investors were freaking out about a normalization of monetary policy. Not just obviously tapering QE but raising interest rates.

And so we've seen interest rates, the 10 year yield rise faster, you know, as a percentage year-over-year change over the past 12 months in any time going back to 1986 at least. It's been one of the worst first quarters for the bond market in history. Typically, this shows that, you know, we should start being concerned about potential financial instability. And to me, if you look back to that margin debt chart. Obviously, margin debt is not the extent of it, we've seen YOLO call option buying, like I mentioned, and then the, you know, the use of swaps, you know, by hedge funds and family offices like Wings, Archegos. You know, these are the types of things that could become more prevalent as just a result of rising interest rates, potentially creating risk to financial stability.

Erik: Let's tie this all together, Jesse, because if I look at this whole chart deck. It seems to me you've made an excellent argument for valuations really being pretty darn stretched, looking like the very end of a bull market and getting ready to be the blow off top that you know, beats all blow off tops from ever before. The thing is, we've really made this argument quite a few times over the last few years, and it seemed to be true. And then we just found that markets just grind higher.

I wonder if we should be considering that we really are in a different paradigm. And it's, you know, it's not that it's different this time. It's that the game has changed in the sense of what the government participants are doing. And, you know, we've never seen unprecedented central bank action like this ever before. And it seems to me like what's going on, even if you go back to page three in your breadth chart. You know, this time around, it's not just the darling names, it's the whole stock market. Well, I think that's just because there's an insane amount of central bank supplied liquidity that's pressing ETF flows, you know, huge amounts of money into ETFs that are buying the broad market.

What are your conclusions? I mean, I guess, I've become skeptical of a conclusion that this has to be the top because we've been down this path so many times before.

Jesse: Yeah, I absolutely agree with you that, you know, monetary policy has created an environment where it's, they've just flooded the markets with liquidity and, you know, obviously, whether that is actually supportive of risk assets, or it's just supportive of animal spirits is probably, you know, open to debate. But I do think that we are approaching a time and this brings it back to the kind of the inflation debate that the Fed is going to be forced with, they've said they want to allow inflation to run hot for a time. But I do think the Fed is going to be forced with a very difficult choice, at some point in the very near future potentially. Which is allow inflation to run hot and potentially out of control, or start to normalize monetary policy in order to deal with inflation.

And at that time, you know, that's when they risk crashing the stock market again, because if you look at how the market reacted in late 2018, to any attempt to normalize monetary policy. it's pretty clear that the markets kind of react very poorly to rising interest rates, rising Fed funds rate and normalization of, you know, a tapering of this 120 billion a month that they're buying of treasuries and mortgage backed securities. So I think, you know, the debate is going to start over the next few months. Whether the Fed has to start talking about normalization of monetary policy. And as I said, the market discounts roughly 18 months into the future. Already, we're looking at I think the markets are pricing in two rate hikes next year. If it's true, the market is going to discount that well in advance. And that means, you know, prices are going to have to start reflecting a normalization among monetary policy relatively soon.

Erik: Well, Jesse, I know one thing that we agree on, is that the backdrop that I think is pressing a lot of this is a move toward I think secular inflation. I mean, on one hand, you know, I see what you're saying about these valuations being stretched. Inflation is usually good for the stock market, at least for the first few years. So how would you see this playing out in stocks, but let's also talk about other assets like precious metals?

Jesse: Well, I think, you know, I would actually probably debate that inflation is not great for stocks, and especially a stock market that has come to discount record low interest rates indefinitely into the future. I mean, I think the T-I-N-A (There is No Alternative) trade is obviously one of the things supporting the stock market. There is no alternative to owning equities, but we're now seeing rates you know, backup and I don't think they need to backup much to provide a real alternative to owning equities.

You know, you can look at any any forecast you want. I use the Warren Buffett indicator market cap-to-GDP has a really about a 90% negative correlation with future stock market returns right now it's saying, on average over the next 10 years, the stock market could lose 5% plus, which kind of lines up with, you know, forecasts from GMO and things that show. You know, over the next seven years, stocks should you know, lose 5-6-7 percent a year on average. You know, inflation obviously would put even a bigger exclamation point on that. I guess the death nail for the T-I-N-A trade.

But, you know, there are obviously areas within the stock market. You know, I've been very bullish on energy stocks. I think we talked about it last time I was on last February. But it was last fall, I did a podcast with Lee Gehring and was, you know, about as pounding the table bullish on energies I ever get. I still think energy stocks are very cheap. And people don't don't appreciate how the supply and demand dynamics have shifted in bullish favor for energy stocks.

And the valuations like I said, are still very cheap. So, you know, I'm looking to add to those on any weakness.

But I do think, you know, the, the most tried and true way to deal with inflation is gold. And ironically, despite, you know, literally unprecedented deficits, unprecedented money supply growth, unprecedent fiscal support for the economy, we're seeing sentiment towards gold turn very, very negative. I think we've seen outflows out of the gold, the GLD ETFs. We've seen DSI, the daily sentiment index, get back down to, you know, very low numbers. We've seen the Commitment of Traders been showing, you know, pretty dramatic shifts in, you know, futures positioning. To me, I think, you know, it comes back to real rates, and we can talk more about that. But I do think that which has been a headwind for gold over the last six months or so is poised to shift into a tailwind.

Erik: Okay Jesse, would you say that's a shift to a tailwind. That could either be because you expect inflation to increase or nominal yields to decrease or both. Which is it?

Jesse: You know, I think one of the problems that you know, gold investors have had over the last six months is they've been looking to TIPS implied real yields, which you know, have been manipulated by the Fed. The Fed has been buying so many TIPS. You know, since they re-upped QE a year ago. That, you know, they've come to Daniel DiMartino Booth has done some good work on this, but I think they own 10% of the market come a year ago. Now they're pushing 30-40% of the market. So they're manipulating TIPS prices, so that you're not really getting a real signal there, I think for where real yields, essentially are.

There's a very, very tight correlation between the gold price year-over-year and the 30 year Treasury yield less core CPI and core CPI, obviously has been falling over the last few months, I think down to 1.3%, or something like that in February, which is, you know, pretty, pretty low. And while the 30 year yield has been rising, and so, you know, real rates have backed up over the last, you know, six months. That's been that headwind that I mentioned, for gold prices. But now I do think, like I said before, we've already seen the biggest rise in rates, whether you're talking about the 10 year or the 30 year in decades. We've already seen a massive, it doesn't seem like a massive backup in yields, but on percentage terms it's pretty significant. At the same time, we've seen core inflation come down.

So I do think we you know, I don't know, I don't really have a strong feeling of where where nominal rates should go. I think they could probably just kind of go sideways for a little while. But I think it's very clear core CPI is going to go from 1.3 to well over two, if not, you know, even 3% or something like this over the next several months. And so the question in my mind is, okay, let's imagine that core CPI goes up 150 basis points over the next few months. Is the 30 year going to go up more than that? Is the 30 are going to go up 200 basis points?

And I just don't see that happening. I don't see, you know, the third year going much over 3% without the Fed, you know, kind of coming in and saying, Hey, we just can't afford higher nominal yields, you know, not necessarily just for the economy can't afford it. But also the federal government just can't afford for the cost of of all this debt to go up too much. Obviously, yield curve control would be the most bullish development for the gold price that you could imagine. And I don't think we're there yet. But I do think core inflation is going to rise much faster than nominal rates over the next few months, which I said is that tailwind for the gold price.

Erik: Now there's an argument. It's not my view, but let's talk about it anyway, which is some people are saying look, gold has been around for a long, long time, but it's been replaced with something better. And some people would say, look, the reason that gold is seeing all this weakness has nothing to do with real rates and everything to do with the fact that so many younger investors are favoring Bitcoin and other cryptocurrencies, rather than gold for the same reasons that people have historically invested in gold as an inflation hedge or currency debasement hedge. Whether or not you and I happen to agree with that logic, it is true that that's what's been happening. So doesn't that explain why the gold price has been kind of weak?

Jesse: Not from my perspective, I look at it and as I mentioned, you know, real rates have been rising, and gold has, has literally just followed that playbook. The correlation remains very, very tight. And so to me that is the explanation for gold prices. Obviously, that doesn't necessarily explain the sentiment, you know, sentiments usually just driven by price, but they're also these narratives. They're important narratives and I think that they do help you understand the sentiment behind gold. But six months ago, last fall when you know, last summer, July-August when gold was over 2000 an ounce and things you know, we weren't hearing about these narratives. So a lot of it is just price driven but Bitcoin has done very well and so you're seeing a lot of euphoric sentiment in the crypto markets Etherium has done even better, while gold has done poorly.

But to me, you know, a lot of this trolling of gold bulls. I mean, to me, it was fascinating to see this week very reminiscent of Jason Zweig's call back in the summer of 2015, when he called gold, a pet rock turned out to be a terrible call. I'm a big fan of Jason's work, but, you know, turned out to be, you know, terrible call, we all make them. So it happens, but, you know, gold price was 1000 bucks or something like that 1050 at the time. And it's obviously doubled since then, but this week, you know, it was interesting to see that sort of sentiment crop up again. Bloomberg piece came out, you know, saying gold is basically being proven, as you know, a worthless asset. And I think even they trotted out the pet rock epithet once again. Which to me is, you know, almost the perfect sentiment signal that it's a great time to be adding to gold positions.

Erik: And where's the opportunity in bullion or in the mining shares?

Jesse: I like bullion, but I also, you know, there was a very large insider buy in Barrick Gold recently. And that's one of the things that I track closely in terms of, you know, when I'm analyzing individual stocks. Barrick has gotten very cheap again, but you know, it's obviously kind of just a one of the main kind of indicators for the broad sector in terms of the miners. So miners are probably attractive too. My friend, Tabby Costas put out a chart this week to showing that the miners relative to the gold price, the ratio is breaking out again from a downtrend. So that's another bullish sign. I think, you know, it all depends on your risk appetite. I like to have a core position in the metal that I'd kind of trade around. And, you know, I kind of use the minors as a bullish way to kind of trade that so I think that's, you know, obviously, they're more higher volatility, higher beta. And it just depends on what you're using it for. I prefer gold for an asset allocation and I prefer the miners for trading.

Erik: Jesse, I want to touch on something. Every time I hear one of your interviews or read something from you know, I think of you as the, the dyed in the wool value investor kind of guy. And what I have a hard time reconciling is it seems to me there's nothing that's cheap, and hasn't been anything that's cheap in a long time. Does value investing still work as a strategy in this era of overpriced assets? And if so, where's the value?

Jesse: Well, I think so. You know, the last time we spoke, like I said, I think it was mid February or something last year, early February, leading into the COVID crash. And we did talk about a couple different stocks that I was looking at. I think I mentioned energy at the time. I mentioned Bed Bath & Beyond, and Macerich, which is a mall operator. Those stocks, you know, I was buying Bed Bath at you know, $4 a share at the march lows. And it got caught up in that GameStop kind of WallStreetBets mania. And so it had a fantastic return off of the lows.

I do think you know, to me, it's important from a value perspective, I'm not a big fan of quantitative value because I think you're absolutely right. I think that there's very little value in the broad markets. And so trying to pursue quantitative value, you're just not going to be able to be as focused I think as you need to be in finding these individual situations. It's funny too, that you know, I'm not necessarily a resource investor, but that's where value has led me, to the energy sector. To me it was astounding to see energy stocks get so cheap. I mean, like a fraction of their liquidation value last fall. And as I said, they're still cheap. And it's not necessarily part of my framework, but I think it's, it's interesting or fascinating to see that, you know, a lot of these individual stocks, energy stocks and things do fit into, you know, a larger framework of macro view towards inflation.

What are the sectors within the stock market that do well during an inflationary environment? Well, real estate does does pretty good, but energy stocks do phenomenally well. The rest of the equity market, not so hot at all. Actually, everything, you know, usually suffers as a result of price pressures and things. But also, you know, I mentioned in 2015, to me, you know, gold got so out of favor and the minors, you know, New Gold and Gold Corp, and these things that were trading at literally like 30 cents on the dollar in terms of liquidation value. I think that value, you know, started to really outperform last year.

And to me, I wrote a piece about that, that insiders in March and April, corporate insiders, CEO, CFOs were betting heavily on on a reversal in that outperformance of growth over value. I saw so much insider buying in energy and financials and these things that were considered the value sector of the market. I think value is still going to outperform. But I think, you know, as a factor value may just if the market is is going through kind of a peaking process right now is I think it might be. Value as a factor may just lose less than the broader market than especially growth stocks and things. And it will, you know, pay to be much more targeted in your approach and not trying to own value as a factor. But try and look for specific situations that offer a margin of safety. And like you said, those are few and far between. But when you do find them, they work very well.

Erik: Well Jesse, I can't thank you enough for a terrific interview. Before I let you go, Tell our listeners a little bit more about what you do at The Felder Report. What's the status of the podcast? And what other information can they find there?

Jesse: Well, the podcast is still sporadically happening. As I mentioned to you, I think you're still uh, I think you've been on the podcast twice. And that's the most anybody's been on it. So I am obviously a huge fan of you and your views. I do the podcast when I have something that I think I need to bring to people's attention and when I'm not too lazy. So like I said last fall, I had to reach out to Lee Gehring and a resource investing expert and get his opinion on energy because it just it looked like a terrific opportunity. So I'm trying to you know, throw in some episodes there and keep the blog going where I kind of feature some of these, you know, snippets of just some of the topics we talked about today.

Erik: Well Jesse, I can't thank you enough for a terrific interview Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.