Lakshman Achuthan: Economic cycle is turning…but what about assets?

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Erik: Joining me now is Lakshman Achuthan, founder of the Economic Cycle Research Institute. Lak has prepared a slide deck to accompany today's interview. Registered users will find the download link in your research roundup email. If you don't have a research roundup email, it means you're not yet registered at macrovoices.com. Just go to our homepage, click the red button that says looking for the downloads. Lak, it's great to have you back on the program. Last time we talked you were I think earlier than most people calling out the inflation turning up the way that clearly it has. Are we still looking at and I think it was not just inflation. But you were looking at business cycles turning up and a number of things. Let's do a quick review of what we discussed last time we had you on the program and what's changed since then.

Lakshman: Sure, sure. Good to be back with you, Erik, thank you. I think we spoke last fall of 2020. And we were kind of updating several cycle upturn calls. And we look at many different cycles at ECRI. And so we had the business cycle upturn in the United States. We had the global industrial cycle upturn that we had also made from the spring of 2020, which was I think it's been a very key call. And then the related inflation cycle. It's a separate cycle upturn call that we made late last summer. And on each one of those cycles. There's been really interesting developments, Mostly I have to say to the downside, decelerations that we've been working through, you know, with people we speak with or our clients in recent months. And so, you know, last time we were on, we weren't equivocating. You know, there was lots of drama in the headlines. It seems like that's the norm these days, but during the whole all the upturn last year, we did not equivocate on those uptrend calls at all. Stocks went certainly along for the ride, commodity prices went along for the ride, inflation stuff went along for the ride. Even though you know, there was lots of stuff going on pretty serious stuff with a pandemic, and also alongside the political strife.

And all those calls, they held straight through the winter. But they started to show up like different cycles started to peek out. And you mentioned, thank you for mentioning the slide deck at the beginning of the call. We have this many cycles framework, what we call the equity framework. It's not a model, right? So nothing I'm talking about today is about models. It's about an array of leading indexes, coincident and leading indexes have different distinct but related cycles that we're tracking. And there's dozens of them. There may be dozens of them for one economy, and we're doing them for 22 economies. And so it's from that vantage point that I'm giving comments today.

And our basic process that's important to understand, and it kind of sets up this discussion is that once we've made a cycle turn call like last year was all the upturn calls. You know, almost immediately, our job is to be on the lookout for the next downturn. What's the risk of that cycle turn, you know, that cycle turning again. And, as I've intimated now, global industrial growth, we've made a downturn call in global industrial growth. And I think we should get into the nitty gritty on that. Separately so full period on that, and then a full stop and then a separate cycle is growth in the US economy. And so here, it's quite separate from the global industrial downturn call. We have a US growth rate cycle downturn call. And there are some you know that the on the inflation cycle call where you know, we did have that strong upturn call. Our forward looking future inflation gauge, the highest reading in that looks to be back in April. And it's kind of gone sideways a little bit. So we don't have the emphatic run up that we had earlier. And we can get into what's going on there too.

Erik: This is fascinating to me. It resonates very much because I had Darius Dale on a few weeks ago who said look, secular inflation is here to stay but nothing goes in a straight line and it's already gone too far too fast. And he thinks that we're about to see that counter trend, wrong footing move that throws everybody off. Everybody finally ready to you know, dive in on the inflation trend, only to find that we're going to have a whiff of disinflation for 6 to 12 months before the secular inflation resumes. It sounds like what you're saying is very consistent with that. Would you come to those conclusions, or is that reading too much into it?

Lakshman: Well, no, I wouldn't. I mean, I wouldn't argue on the face of it with that view, but I think we probably build it in a different way, and that that can be very interesting when you know, various listeners have a framework or approach or some scenario that they're kind of thinking about. What the cycle indicators can do is help time when some of those things might come to the fore. And so, and we've talked before Erik. You know, I don't want to date us, but it's probably years ago, about a long term decline in trend growth, and in various major market economies that have developed and even the emerging markets. And along with that brings with it some longer term or maybe secular disinflationary pressures. And then you have the policy such as it is, right? It's mostly been monetary policy, but there's now there's more deficit spending, too, which is trying to push against that. And without debating all that, right, that's the tug of war that's going on here.

And within that, as far as we can tell, and, you know, I'm the third generation of this type of work. So it's almost reaching back 100 years at this point, as as far as we can tell, free market oriented economies, right? I'm not, I'm not going to be too dogmatic about it, there's plenty of machinations, you know, pushing around the free market, but as long as it's dominated by the free market, so even China, or the US or other economies that have a lot of intervention going on. If you're dominated by free market activity, you're gonna end up being cyclical, you'll have the ebb and flow. And so you can have a secular rise in inflation. You can have a secular decline in inflation. You could have either one of those views. And there's still gonna be cycles overlaid on that. And there's this desire, often. I don't know if it's a desire or reflex or whatever. But there's a conflating that happens between the cyclical move and the secular view.

And, you know, I think most listeners who have kind of had some experience in these debates and discussions will be comfortable with the idea that it's really hard to see a secular change. When it's happening, you can see it in the rearview mirror, but super hard to see it like, hey, now we've switched and we've made a secular shift the other way, that's a tough one. And it can often get confused with just a cyclical event, which may last for several quarters, one way or the other. And so I'm not entirely sure about the secular. I don't want to bang the table on it. I have some suspicions. But I am pretty sure about the cyclical. And I can say with pretty high conviction, we've got a global industrial growth downturn. I can say with almost as high conviction that we have a US growth rate cycle downturn, and the current inflation cycle uptrend, I think everybody acknowledges the inflation cycle upturn, they may attribute it to different stories. From our vantage point, the cyclical component is pretty big. And the forward looking indicators on the inflation cycle for the time being seemed to have topped out.

Erik: You alluded earlier to diving into the nitty gritty of the cyclical indications. Let's go ahead and do that and talk about what’s going on here.

Lakshman: Sure, I think first and foremost, right. Let's stick with the again I'm dating myself. I'm in my midlife crisis, right? I'm in my 50s now. So I'm saying like, what are the really special things in life? It's really special to have conviction about something. You know, the more you know, the more you know you don't know. And so when you go through your processes, and in this case, I'm sharing the cyclical process. And when you have conviction, it's kind of, you know, that's special. We have conviction on the global industrial growth downturn. And I mentioned that, again, I'll refer back to the slide deck.

If you go to page four of the slide deck this time. There's a chart of indicators of global industrial growth. And on that slide, you can see why we have, I'll explain why I have some conviction. So the target is at the bottom of the slide. And that's global industrial production growth for some 22 economies around the world. And it's slowing. Okay, so that's the target. And then there's the global industrial growth short leading index in the middle in the global industrial growth long leading index at the top. And you can see that the global industrial growth long leading index has a very long lead actually topped out quite a while ago and it was at the end of 2020 that we first indicated to our clients that, hey, there's some storm clouds way out there on the horizon. But we knew that the ongoing global industrial growth upswing was going to persist. I mean, there were a whole bunch of cyclical dynamics at play. And we knew it was going to persist for a few more months. And we said so we said, hey, you know, you could still make hay, but start keeping an eye on the exit door, then in March of this year several months ago, based on the global industrial go short leading index, or the, or the GIGSLY. That's the middle line in the chart. We know we were closing in, on the peak in global industrial growth.

And so, you know, these storm clouds were getting a lot closer to shore, so to speak. And then by May of this year, it was pretty clear to us and we said so that global industrial growth, the slowdown was already at hand. And it was beginning. And the actionable kind of information here, right, is that there's a high rise in the risk of downturns and commodity price inflation, and the global PMIs. And I know, I'm sure you've heard this a lot, you know, a lot of people talk about the PMIs as a way to get a read on what's happening with economic growth. You know, so the PMIs are a survey and they have a maybe, in theory, a short lead over the target. The target is the hard data, actual industrial production growth. And, as it turns out, the PMIs don't have that much predictive value. They are super important, because everybody watches them. And so for that reason, you cannot ignore them, because they'll be reactions to what the PMI does.

But what you can see from this chart is that now if you go to slide three now, if you back up a minute. You can see the global PMI against the same target global industrial production growth. So the target is always that hard data, like what's happening in reality. And that slide three shows that the global PMI actually turns around the same time as actual industrial growth. And this year, at the peak in global industrial growth, which has already happened. The PMI which has started to turn down, right, it's gone down a couple of months, global PMI. It actually is lagging the cycle. So the way that our work is used is to time that moment of risk in the market when things that the people pay attention to, in this case, the PMIs are going to maybe surprise and go the other way.

And that sequence that I showed on on chart four of the long leading and then the short leading, and then the actual, the target turning down. Depending on your own risk profile, whoever you know, whatever the institution is, or the portfolio that's being managed, or whatever it is. You know, you can be more or less aggressive in how you approach these cycle turns. But when we see a long leader turn and then a short leader turn, and then very short leaders like the PMIs, or commodity price inflation turn and actual the target. In this case, industrial production growth turn, you have a lot of conviction that it's not noise. Especially what's going on, say with commodity price inflation coming down, or industrial production growth ease.

Erik: Let's talk about how to extend that and apply it to markets because I can see several points on this GPMI graph where there was a clear sign of topping and a turndown but boy, it wasn't the time to short the S&P was it?

Lakshman: Yeah S&P is slightly different. Okay. So on this slide, and it's a great question. And boy, S&P has kind of evolved in how it and how it fits in a portfolio over the decades. But right here, I'm going to kind of oversimplify with broad brushstrokes and say that this global industrial growth, the cleanest link there is with broad industrial commodity price inflation. Okay, that's a nice clean link to market prices between this cycle and that aspect of the market. Now, clearly, commodity price inflation, then, you know, it or commodity price even levels if the growth downturn is strong enough, you're gonna see a move in the level. If those things start to move, they're going to impact other assets in the portfolio construction and so when you switch over to something like broad equities. Right again, and let me put my own warning label here, equity doesn't make market calls, we make growth and inflation cycle calls. And then that's our bread and butter. And what I'm sharing after that is, hey, where there seemed to be some linkages between the markets and those calls, causing growth and inflation cycles. So you know, we have conviction about calls and growth and inflation cycles. And when we look at the relationship between, say, equities, and cycles, the link seems clearest between cycles and overall growth, economic growth. So far, I've been talking about global industrial sector growth. So say the manufacturing sectors of have all the major economies around the world. That's the cycle I'm talking about.

We're going to put a period there and move forward to cycles in US. In this case, US economic growth, and cycles in US economic growth, have a relationship with, say the S&P. And up until the global financial crisis, which kind of marks the shift towards extraordinary kind of a well, I don't know what you want to call it, whatever, some QE or whatever you want to call it right? Up until then, growth rate cycle downturns, decelerations in US economic growth. We're associated with cyclical downturns and share prices. And when I say cyclical, I'm very specific, I mean, pronounced pervasive and persistent declines in share prices, so cyclical declines. Persistent could be a couple of quarters or more. Post-GFC, the persistent part of the decline in share prices associated with growth rate cycle downturns was largely removed. Okay. So you'll have a pronounced decline in share prices, you'll have a pervasive decline in share prices hard to hide in say S&P, but it won't persist. It won't go on for a couple of quarters, which it used to do pre-GFC. Post-GFC, what you have are major market corrections are associated with growth rate cycle downturns. So now we come to today, and I could talk about the history of that in the last 10 years if you'd like. But the operative thing for today is that we have a growth rate cycle downturn call.

And the market is, you know, somewhere near the highs, right. So what does that mean? In our assessment, in our kind of observation of how share prices, S&P reacts to growth rate cycle downturns. That's where we see the larger now corrections in share prices. And so they can be double digit percentage points over 10% declines. And we haven't seen one of those since the COVID recession. So we would say another way of saying that is that the risk of a correction in the market has gone way up recently, because of the growth rate cycle downturn, the cyclical growth rate, deceleration that is unfolding now. And if you if you actually go to slide six, and it's titled us coincident index, I think you can kind of visualize what I'm talking about. And it's interesting because it brings us to the current debate like hey, you know, things are slowing but so what it's still pretty good. And, you know, that may be true, but the relationships are still as I just outlined them.

So on this slide six, you have US coincident index growth rate. This is not a forecast. This is just a fact of the hard data that defines the economy outside your window. So it includes the key measures of output, employment, income, and broad sales, much broader than retail sales. And you can see the COVID recession, it was short and nasty. And the growth in the coincident index went negative 20 plus growth rate. And then the rebound saw the growth in this indicator spike just as much to the upside. And some of that volatility earlier this year, end of 20 and into 21 is being kicked around by the income measures being hit by variations on the stimulus. You know, it hits and then it's off for a few months, and then it hits again. And so you get a little jumpiness there. And if you kind of just even within your, in your mind's eye get rid of those, that jagged kind of peeking out in growth that occurred around the end of !1, early Q2 in this chart, you can see that it's rolled over.

And so coincident index growth has actually edge just below 5% from readings as high as you know, in the teens and almost approaching 20%. And so that's undeniably a slowdown. The question is, where is it going to go from here. You know, trees don't grow to the sky, hey, this thing had to turn down, we understand that. But where is it headed? And, and also, you know, the analysis that there was going to be a slowdown is not based on some year over year comps getting harder or whatever. It's just that the forward looking data turned down. And if you, if you switch to the slide seven tou get another view of this kind of sequential monitoring of turns, again, from a slice of our framework, we have dozens of indicators for the US economy. I'm showing you here, some a sequence of indicators on slide seven of indicators for the aggregate economy, not for any sector. And the long leading index is on top, the weekly leading index is second from the top, the short leading index is second from the bottom and the coincident index growth. Same indicator that you saw on the earlier slide six is at the bottom of the chart. And what you see is that the long leading index growth rate for the overall economy turned down several months ago. And way before, this becomes important for you know, the current headlines way before the Delta variant became a concern. So something cyclical, was getting set up a while ago.

And it also doesn't have as I mentioned, anything to do with the base effect issue that is going to make year over year growth rates go down. It is totally unrelated, what I'm showing you here and I'm sure a lot of people are still gonna feel that you can dismiss what I'm saying because it's just kind of like tough comps and base effects or whatnot. But take my word for it, that our analytical methods sidestep the entire issue of base effects. What I'm showing you here is unaffected by that. And, as I said, the downturns in the longer leading indexes started well before Delta surfaced in the United States. And so when you have a long leading index turn down,the weekly leading index, it's a shorter lead follow suit, the short leading index, shorter lead also turns down the coincident index itself turns down. Hey, you know if it walks like a duck and quacks whatever, it's a duck, right? This is a cyclical downturn. And the next question after having made that call is, is there any side of an upturn? And our long leading indexes is not showing a sign of the next upturn in economic growth and so here we are.

Erik: Okay, so if I summarize all of this, you've got a pretty darn good track record at predicting economic cycles. And back in the day, pre-GFC economic cycles used to transmit pretty directly to stock market and other asset classes. It seems like what we're really dealing with is in this new era of monetary policy post-GFC, that price transmission mechanism is kind of broken down. It still works for commodities better than it works for stocks. But it seems like the you know, the stock market, just they keep buying the dip every time it happens, no matter what kind of data we're looking at. It seems to me that, you know, where we ultimately have to be headed is a lot of people have said is someday they just do too much borrowing and spending beyond their means in blow up the whole system. Is there anything in your models that starts to track when deficits really do matter? Again, and when that national debt reaches a point where it truly becomes problematic now, not just someday?

Lakshman: The answer is yes. I mean, we're all about when, right. The problem is that the at least in our view, when looking at two or three years from now, that stuff may not have been determined yet, right. There's a lot of road between here and there, as to what happens a couple of years from now. When we are looking at our cycle indicators, and not for lack of trying, okay, but the farthest we can really get some bead on the risk of a turn or the risk of something snapping is about a year. You can't go a lot farther than that with any usefulness. And in terms of the applying that data to a decision. And that's why I say maybe it hasn't been determined, I could see the structural stuff. There's a long term decline and trend growth, we see that and we see the policy response, which is to use more and more, you know, debt, or interest rates, or however you want to say it. Low interest rates to or deficit spending to prop things up, keep things going.

And sometimes, I guess, if you double the amount of whatever you're doing. You know, we use to use this phrase years ago, it's kind of like the Red Queen Effect, where if you have to run twice as fast just to stay in place. And, you know, that may be what's going on here, right? And we don't know exactly how many times you can double the amount of debt without something breaking, but we can monitor the cycle indicators to see if things are running away one way or the other. On growth, we see the deceleration. We can infer on this chart, by the way that I just landed on the chart seven, you can see it's you know, we don't forecast by analogy, but you could see what was going on post-GFC. And so post-GFC, the long leading index took off, the weekly all those leading indexes anticipated the recovery. By the way, when most of the world was looking for a depression, these indicators went up. And so they nailed the recovery call in March of that year. They were super early when people were still talking about depression and stuff. But then what's interesting is they nail the downturn call. So we make a growth rate cycle downturn call, I think in December of 09. And back then it was Vice President Biden, who in the spring of 2010 was tasked with kind of promoting the recovery summer, which ran right into the slowdown.

And it was important for markets, I don't want to suggest that the stock market has disconnected from economic cycles. You had a 16% correction in the market that began in April of 2010. So nobody wants to walk into that, right? You know, as a manager of risk or a manager or a portfolio, you definitely don't want to just take that. So if you know they're going to buy that, you know, they're going to intervene, and in practically every one of these growth rates cycle downturns, once the powers that be kind of are confronted with that they react, you know, and that truncates the, maybe the certain aspects of the market. In this case, we're just sticking with equities. So how do you manage that?

I mean, there's, you know one extreme version is that you just buy insurance. But the problem is, right, you don't want to be buying insurance all the time. You don't need insurance all the time. You need insurance during a growth rate cycle downturn. You don't need insurance during the growth rate cycle upturn. To the contrary, you could sell it, right. So that's the way you may kind of modify how you interact, say growth rate cycles with equities. Now switching gears, I'm oversimplifying, we got commodities, we have equities, you also have fixed income, of course, right? And, and the 60/40, 40/40 portfolios have a lot of money sitting in fixed income. And so there you have the you know, what a real rates and what are inflation expectations, and real rate has collapsed, totally in line with the growth rate cycle damper.

So super important for that aspect of your portfolio. And, you know, we'll see where inflation expectations go. I think that we can't predict the predictors. We have to watch where the future inflation gauge goes. It nailed the inflation cycle upturn call. It has not given us an inflation cycle downturn call yet. So those inflation expectations components. We don't have a clear downturn call there just yet, but that's what we got to watch for. That's what we're paid to do is to determine is there a cyclical downturn developing there. And that's what we're working on right now.

Erik: We've been talking about how the transmission of these economic cycles to the stock market is not really what it used to be pre-GFC. It seems to me though, that commodity price transmission is a little bit more direct, because those commodities are either needed or not needed and have to be produced in a certain timeframe. So in terms of what we're seeing here is we think about other assets, like, let's say crude oil, and copper, which are traditional inflation hedges. Should we be expecting a downturn cyclically in those assets as well?

Lakshman: You know, the short answer is yes. Those are tradable in exchange traded industrial commodities. And so we track very very closely sensitive industrial materials prices, many of which are exchange traded many that are not, and almost all the time, their cyclical direction is the same. And occasionally, for maybe speculative reasons, they'll diverge a little bit. But then, wherever those non-exchange traded ones are headed tends to be the right direction. Commodity price inflation itself has already turned down the broad commodity price inflation. So I'm talking energy, base, primary metals, textiles, and other miscellaneous kind of building materials and other things. And that is not over. That is probably one of our higher conviction calls. You could you know that global industrial downturn is not over. And just as good as it feels on the way up in terms of, hey, this is really strong, it's one for the record books, and so on and so forth, You can get that same kind of violent reaction to the to the downside we get it's known as the so called bullwhip effect, where the size of the cycle gets amplified up the supply chain. So commodities, industrial commodities are way up the supply chain, right, where this could also apply, say, for something like semiconductors. In theory, right? Because anything, that's a really early input, where you have a lot of capital investment to create it, or to extract it, or build it or whatever. And it's still this really early input. So your supply of that tends to be kind of linked to whatever capacity you set up.

So if you set up a lot of capacity to, to attract something, to build something, you're going to run it and the demand for that then can make those price cycles fluctuate very wildly. And that's going to happen here, it's already starting to happen. And it's not over. So what will be, you have different aspects of the market that are starting to move, you have commodity price inflation starting to move, maybe even some levels, and I don't think oil or copper are going to dodge it entirely. You know, there may be some supply things here and there that make a specific commodity act a little different for a little while. But the the broad backdrop is a cyclical downturn and global industrial growth, which will take the whole group, it'll put downward pressure on the whole group, in terms of the inflation cycle and those prices. And, as we said, the growth rate cycle downturn, let's say in the US, or even in starting in other countries around the world, that puts pressure on real rates. And so you're seeing those move. You're seeing, you're probably seeing, I think, you know, you're seeing movement in commodity currencies. So things are moving. And in that circumstance, I think, saying that there's a growth rate cycle downturns. So the risk of a correction in equities is a lot higher than it was in the past year. It sounds entirely reasonable. To conclude that having, you know, looking at what we're looking at,

Erik: Let's talk a little bit about precious metals, which is a near and dear subject for many of our listeners. On one hand, I suppose you could make the argument that economic cycles, industrial cycles don't really affect demand for precious metals, because it has more to do with investor sentiment. On the other hand, that sentiment, I suppose, is driven to some extent by the cycles. How do you think about precious metals? Are your cycles effective in anticipating precious metals price moves or is it a little too disconnected?

Lakshman: You know, I think it's more of the latter. It's a bit more disconnected, If you can narrow down to, you know, an industrial activity kind of driving the price of something, then we can make the cyclical link. But if there's the speculative component, which is, you know, pretty large, say, for gold or something then that becomes quite a bit tougher. I think, you know, if you get a market correction, and when I say correction, I'm talking double digit percentage decline. If you get a market correction, I think those assets will probably at least on a knee jerk basis, be a safe haven. I would think, but you know, I just hesitate because everybody's buying Bitcoin and stuff. But that's also a risk asset right? So it's a very volatile asset. So I think that's where, you know, when you get the the, what is very likely to be a correction of size, I think associated with the growth rate cycle downturn, those other assets are going to move I want to correct I just want to clarify something.

Since the GFC, I think there's been about four growth rate cycle downturns in the last 10s on over a decade or so. And that's not a lot of sample size, right? It's okay. It's not a lot. And we've seen corrections show up rather quickly. I mean, in a matter of months or so after a GRC, a growth rate cycle downturn starts in three out of four of those instances. During the 14 to 16, late 14 to 16, growth rate cycle downturn, it took a couple quarters until there was a correction in the market. And that was a downturn in economic growth. That was focused very much in the industrial sector. There was actually a global industrial downturn and the US industrial sector also succumbed to that. So people who were focused on that sector, that aspect of the US economy certainly felt it or were aware of it pretty quickly. But maybe someone who was looking at the broad market just didn't see it right away. And so in that instance, the correction took almost a half a year to show up but it still happened. It was still there inside the growth rate cycle downturn.

Erik: Lak, it seems like big picture here, you're talking about a pretty significant downturn in the economic cycle, not necessarily direct correlation to the stock market cycle. How big of a, are we talking about a recession call? Is that really what you're making here?

Lakshman: That's an excellent question. And the answer is no, there's no recession call. The reason it's a big call is because we're looking the other way, right? And not because of base effects and not because of the Delta virus. If none of those things were issues, we'd still be making the call based on the drivers of the cycle. Consumption of goods, consumer consumption of goods hasn't only slowed, it's actually falling, right? The level of goods consumption is falling. And while our consumption of services is increasing as the reopening kind of progresses, it's not offsetting that downturn. So we have an overall growth rate cycle, downturn call. It's bringing housing there stuff in there with supply and prices that are slowing some of the activity there. Infrastructure is going to put some demand out there. But it's really spread out over so many years. It's not a game changer. And so my guess is that as people kind of come around to the idea that things are slowing, we may get people talking about recession, we don't see one. We don't see a recession. But back in 2010-11, with the disappointment, that the growth didn't continue, you know, the markets are pretty manic depressive. It goes from one extreme to the other and so I wouldn't be surprised if that comes up. But, we don't see it on our radar.

Erik: Lak, I can't thank you enough for a terrific interview. But before I let you go for the benefit of our institutional audience, please tell us a little bit more about ECRI, the Economic Cycle Research Institute. I started to call you the founder of that organization, it's actually like three generations old. What's the story here?

Lakshman: It's three generations old. So early years, first generation, it was the National Bureau of Economic Research. Second generation, it was it was largely the Center for International Business Cycle Research at Columbia University, which is where I joined. And then now since the mid 90s, we've been known as the Economic Cycle Research Institute completely independent. So we're not talking to anybody's line. We're just telling you where they are monitoring these indicators. And we have institutional clients and, you know, they are big fund managers or asset managers and big companies, C-suite type situations.

And I want to share something that came across in my email. It was a quote from Jeff Immelt, you'll remember the GE head for many many years, and I'm using his words now. Quote, knowing what to do isn't that hard, knowing how to do it isn't that hard, knowing when to do it is really hard. Unquote. And that's what we're about. We're about, hey, when is this going to crack and go the other way and surprise someone? And so I think the PMIs, for example, are great great, like, is it noise or not? They've come off for a couple of months. I don't know what it means. Hey, we know exactly what it means. It's all part of this cyclical array of indicators, and it's coming in right on cue. And it's going to be easing and so that arms you to make a better decision in managing your risk.

Erik: Lak, we look forward to getting you back on the show in a few months for another update. Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.