David Rosenberg: The Fed Put Has Expired

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Erik: Joining me now is Rosenberg Research founder David Rosenberg. Last time we had Rosie on the show he was a bear in a room full of perma-bulls. David, I think there was something to what you told us that maybe stocks don't just go up all the time, after all. Give us the rundown here. What's going on? Why is it happening? How come other people didn't see it as early as you did? And what do you think is coming next? Is this over? We just had David Tepper, when I should let our listeners know we're speaking on Tuesday morning, since the market is moving very quickly. From our perspective, market has been falling. We're looking at about 3960 on the S&P right now. David Tepper covered his shorts that caused the market to rally dramatically for all of about a half an hour and back down again this morning. What's going on? Where's this headed? And how much further down do we have to go?

David: Well, you know, back to your initial comment about, you know, what is it that the bulls didn't see at the turn, was they just didn't take their own advice. Because, you know, through the previous two years, of what was a parabolic move in the stock market, the mantra was don't fight the Fed. But you see, that works in both directions. And so what's wrong about the bulls staying longer in the game than they should have was that they're fighting the Fed in the other direction that the Fed is. If you're long only investor, the Fed isn't your friend anymore. At some point, they will become your friend. The point I was making all along was that, you know the 4800, call it peak on the S&P 500 at the start of the year was a real fictitious peak. We had no business being there. And so what's happened these past three years, three years in a row of unremitting policy easing by the Federal Reserve. 2019, the Powell pivot cut rates three times. We expanded the balance sheet after telling everybody in 2018 how he was going to move the funds rate above neutral, never came within 50 basis points of that and the Fed was going to shrink the balance sheet, but they did the opposite in 2019.

And then in 2020 of course we have the pandemic and the lockdowns and we get double barreled rate cuts, and then unprecedented balance sheet expansion with the rates to zero. So in 2021, the easing by the Fed wasn't about interest rates, it was about ongoing balance sheet expansion was continued to stimulate the animal spirits in the stock market. You can't go back in history and find too many times when for three consecutive years, the Fed was continuously easing monetary policy. And so you see what happened was when you look at the stock market, it's the product of two numbers. Earnings and the multiple that investors are slapping on those earnings. And that gives you the S&P 500 price. So you see what happened was that from the end of 2018 to the end of 2021. The S&P 500 practically doubled in a three year span, which

hardly ever happens. I mean, it happens, happens usually at bubble peaks like back in 2000. And when you do the arithmetic. 70% of this three year bull market that of course included the bounce off the march 2020 lows, but 70% of the three year bull was multiple expansion and only 30% was earnings growth. I'm not going to tell you that earnings weren't good. But earnings were really the two big player in this equation.

In a normal bull market, the main actor is earnings growth. Earnings are 70% of the driver for valuations. And the multiple is the other 30%. And we reverse that in that three year period from the end of 2018 to the end of 2021. So, you know the Lord giveth and the Lord taketh away. And so when you have really a multiple-led bull market that has been predicated on Fed policy tailwinds, you have to know that when those tailwinds become headwinds, that 70-30 split between multiple and earnings are going to switch chairs at the table. So I just saying naturally that if we get that mean reversion of really what a true driver of the market is, which is not predominantly multiples, but predominantly earnings. We're going to get to 3600 and run away to 3600. I'm just not convinced will necessarily stop there. But that's just the arithmetic of what a normal market would have taken the S&P at the peak. We had no business being at 4800. And now we're paying the price for the fact that the driver of it, which was fed policy, that movie is now we're winding in the other direction. And that's the story.

Erik: David, I couldn't possibly agree more with your analysis. But I want to play devil's advocate here, because what the detractors would say is like okay you got the call right. It is about Fed policy changing, and they're at least making noises about how they're going to normalize their balance sheet and tighten policy. But look, we all know the Fed put is in place just any day now. They're gonna come to the rescue, they're gonna save the market, because they always do. And as I told our listeners earlier in today's episode, I think the game changer here is if inflation starts to run away, and we're not quite there yet, but we're getting close. That really ties the Feds hands, they won't be able to provide all of that stimulus and liquidity. Am I right about that and is that a risk yet or are we not really there yet?

David: Well, I think that this is a different Fed in the respect as to why you said, we have eight and a half percent inflation. Of course, that number is going to change and probably has peaked out. But remember that their target is two. The Fed is feeling that its credibility is being jeopardized and they're panicking. So you can't compare this to previous Feds where if the market was down 20%, they'd be there to hold your hand and pick up the pieces. It's not gonna happen this time around that easily because they are fighting an inflation battle that we haven't seen in four decades. Now look, Powell has had lots of opportunity to do exactly as you said to say, okay enough is enough. I mean, the S&P say is down 17-18%. But you got the NASDAQ's down close to 30% and the Russell's in a bear market. And you have wide swaths of the economic sensitive stocks.

Yeah, you know, so you've got a market that's not in a classic bear market only because utilities and consumer staples, the two sectors who aren't in a recession have hing in remarkably well. But when you're taking a look at the homebuilding stocks, and the home furnishing stocks, and the banks, and the retailers, and machinery stocks, and the truckers and the rails. I mean,

they're basically telling you that this is a bear market, it's a bear market in the economic sensitive stocks which is a lot of information is just on a bear market in the stocks that do well, in a recession, which is information right there. Look, back in early March at the semi annual congressional testimony, in a conversation that Powell was having with Senator Shelby from Alabama. He is comparing himself and talking about... Powell is comparing himself to Paul Volcker. He didn't compare himself to Arthur Burns, didn't compare himself to William Miller, didn't compare himself to Alan Greenspan, or Ben Bernanke. He compared himself to Paul Volcker. So if you want to find out what the Paul Volcker put was well it was an eight multiple on the S&P 500 in August of 1982. In case you're wondering, what that means he's comparing himself now to Paul Volcker. Because Paul Volcker is revered for being the inflation dragon killer. But he killed the economy to do it. And he had to do that because we had a massive series of supply shocks from OPEC.

And now we have global supply shocks from a wider array of sources beyond just energy, including China's aggressive COVID policy and of course the Putin war in the Ukraine. These are complicating factors that have taken the aggregate supply curve increasingly to the left and that is inflationary from a cost perspective and the Fed in the past several months has said enough is enough. So I don't know what there is more to be said. The Fed has laid down the gauntlet. I mean, we have a situation where they're talking about 75 basis points. You have people criticizing the Fed for taking 75 basis points off the table, which Powell really didn't do, but he just said that they weren't discussing 75 right now but we moved to a situation where now it's commonplace. Now 50 basis points is a walk around the park. Who doesn't know the Feds gonna go 50, 50, 50 then 50. When was the last time the Fed went 50 basis points three meetings in a row? This is serious. This is significant tightening and monetary policy we're talking about. You have people saying this will go 75. I mean, they're gonna actually…it's gonna be Paul Volcker. Just understand Paul Volcker killed inflation. But he killed the economy and back to back recessions. And then those recessions where he killed inflation, and he was successful and he's revered. There's plaques and monuments and statues for Paul Volcker. He had to kill aggregate demand. And he had had to actually kill the stock market and pave the way for a secular bull market and in the process, but you didn't want to stand there catching daggers from the sky as the process of killing inflation by killing aggregate demand from a cost push inflation process. You don't want to participate on that, from the long side if you don't have to.

And that's where the I think what the story is right now. The Fed is fighting inflation into a very weak economy, a wobbly stock market liquidity problems everywhere and credit spreads now are widening sharply and we're staring with recession in the face. I mean, we are staring a recession in the face. And the Feds not even done tightening yet. But if you're going to ask me, you know, how low can this go? I said before, we really should be at 3600. I know that sounds people just shudder when they hear that because we were 40. We never should have been a 4800. But we come down to fear and degreed. I don't think 3600 will necessarily be the stopping point is as awful as that sounds. Going down another 20%, then you're talking going down to the 25 to 30%. But yes, I think that you see the problem all along was the starting point, the problem along was a starting point on the multiple, just as it was back in the opening months of 2000 when the problem was the starting point on the multiple, and that bubble peak in the

NASDAQ, and it affected all the major averages at the time, but that was the poster child for the bubble. But we also came into this turn in the cycle in a bubble. I'm not gonna say it was as big a bubble as the dot coms. But it was a very significant price bubble, where I said before earnings fundamentals despite what you're reading, you hear earnings fundamentals were solid, but not that solid to generate 4800 on the S&P. That was because of TINA, there is no alternative. And it was because of FOMO, Fear Of Missing Out and was because the Fed has your back. All that has changed.

And so when I'm taking a look at you know, the Fed is telling everybody we have to weaken aggregate demand, well aggregate demand is what drives corporate profits. That's ultimately what you pay for. We haven't even seen, you see everything I'm talking about everything that's happened this year has been contracting the multiple getting the multiple down to more appropriate levels. We're not even there yet. We haven't even seen the recessionary impact on earnings that's going to come next. And that's how you get to 3100 on the S&P. It's going to hurt a lot of people because they're invested passively in ETFs. The easy route, but there's quite a bit of pain ahead. The Fed is only focused on one thing right now, it is not about assets, they are focused on getting demand weak enough to get inflation back down at 2%. And the sooner the better. So that's what they're focused on right now. They actually need... you understand what I'm saying they need a bear market in equities. They need home prices to go down. They need asset deflation to play a role in getting the consumer inflation back down to where they want it. They need that. They talk about the need for tightening financial conditions, which is just a nice grandmotherly way of saying we need a bear market tightening financial conditions means two things. A lower S&P 500 and wider credit spreads. The question is what is the financial conditions that will finally get the Fed what it wants 2% inflation. And we've modeled that out. We have modelled that out that for the Fed to get to 2% inflation for everybody saying we need to get to 2% inflation. It's going to take a lot of hard work on the demand side of the economy unless somehow Beijing changes its policies or Putin withdraws, these global supply chains aren't going away and their impact on the inflation that has the Fed so concerned. That means we're going to 3100 on the S&P. And it means that high yield spreads go from roughly 400 basis points today to 700 basis points. So my advice is be patient and be disciplined. Stay calm and have cash on hand to put to work when we get to those levels in equities and in credit.

Erik: David, I was particularly interested in your comments about Jay Powell talking so much about how he seems to be channeling Paul Volcker like he's going to be the new Paul Volcker. Well, hang on a second, something that Paul Volcker said before he died was that the approach he took in the early 80s To defeat inflation would never work today because we have a completely different debt situation than we had at that time. So the guy who won all those plans Next, and statues and awards said it's not going to work this time. But it seems like the guy who's running the Fed is trying to copy something that the guy who succeeded last time said wouldn't work again, am I missing something?

David: Well, he's only saying that we're not going to, you know, 20% interest rates. And of course, it's very interesting is that the natural rate of interest continues to go down. And the Fed even cut its estimate of the neutral or natural rate of interest last time it put out its dot plots.

From two and a half percent down to 2.4. The neutral rate of interest was a lot higher in Volkers day because of the debt situation which is far less a constraint than it is today. And you're 100% right on that, but also we had a more vibrant, younger demographic profile back then as well. And technology was only 1% sub-1% of the economy. Today it's 7% of the economy. So we have much more disruptive technology today. There's a lot of structural factors in the economy that has taken the neutral interest rate down over time. That explains why we've been in a secular decline in nominal interest rates for such an extended period of time. A lot of that is demographics by the way as I said before. That's very important. The aging demographics, just like you have in Japan, and in China, and in Europe, but also the debt situation is a critical constraint. So all Volker was saying is that under those constraints, we would never be able to get the 20% interest rates.

But what I'm saying is that, you know, 4%, today is going to feel like what 20% did, you know, back in the early 1980s. It's just about the level of interest rates that we peak out at. We're going to peak out at a relatively low funds rate compared to the past, as we already have done. Over the course of the past 40 years, the peak in the funds rate in every cycle is getting lower and lower and lower, because of the factors that you cited, or one of them, which was the excess of debt. But that, you know, sort of camouflages the overriding point here, which is that the Fed is not going to stop until something seriously breaks. Now, what I'm saying is that we would have to have a real cataclysmic destabilizing decline in the stock market or something dysfunctional happening in the corporate bond market, for this so called Powell put to come back into vogue. Something very nefarious is going to have to happen. And, you know, for example, when you talking about how that happened in 2018 in December, it wasn't so much about the stock market going down almost 20%, the corporate bond market froze up, but there's no liquidity. We went almost two months without a single high yield bond issue.

So I'm not saying that they won't respond to financial market conditions, especially ... if they become disorderly and destabilizing. They will respond. Then again, we're not there yet. This has been an orderly onset of a bear market that becomes really disorderly, the Fed will have to respond. But once again, knowing that there's some non-trivial prospect that could happen, do you want to really participate in that? And then on the other side of it is that most important thing is when he's comparing himself to Volcker is acknowledging that no matter the fact that we could be staring recession in the face, demand is still too strong relative to supply. Therefore, we have to weaken demand that much more to get inflation down. And that's really what the story is. The Fed is not tightening in in a booming economy. This isn't the 1990s or 2000s. This isn't a booming economy. GDP is actually you know, people don't realize there is a monthly GDP series. And between October and March real GDP is running negative 2.4% at an annual rate. I don't think people realize that in real terms. And remember that recessions and expansions are defined by physical units of spending and income. It's not about nominal, nominal GDP never went negative once in the 1970s. Nominal didn't go yet we had three recessions in 1970, 73, 75, 1980. Everybody talks about nominal GDP. I think that, you know, we had commentators on television last week. I won't say who they were talking about, don't worry nominal GDP is doing just fine. Yeah, because of inflation. But inflation is also corrosive, and the Fed realizes that, but it's eroding real GDP. And real consumer spending, by the way

has been flat between October and March. I don't think people realize how weak the economy is. And yet the Fed is not just tightening, whether it's 50 or 75. They're not in 25 basis point camp anymore. They're getting super-duper aggressive here. So that is assigned to me that this particular fed, like the Volcker Fed is going to be willing to sacrifice the economy. The economy will be the sacrificial lamb, as it was... Paul Volker did to do one thing, which is to kill the inflation.

Erik: David, you said earlier that the Fed really needs a bear market here, they're just not going to come out and say it. Would you take that so far as to say the Fed really needs to engineer an economic recession in order to fight inflation. And of course, they're not going to say that for political reasons. But that really is what they're doing. Is that right? Am I...

David: That's exactly what I just said...

Erik: I just wanted to make sure. You think that they are engineering a recession on purpose.

David: I think the recession is starting right now. I don't think... you have people out there saying it's not till 2023. I just roll my eyes at that. It's staring us in the face. It's in the markets and it's actually in the data. But you just have an industry that people don't you see, these sell side economists, their career longevity is at stake. Well, that's why I started my business was so I can get away and just not have compliance and not have directors of research tell me what I'm supposed to say, to make people feel good. You know, if I want to make people feel good, I would have called my company Rosenberg Circus instead of Rosenberg Research. It's really basically to help people stay out of trouble. Now, if you're a buy and hold long only investor, I'm just gonna buy and hold for 20-30 years. I don't care about the cycle then fine, just do that. I'm not your guy. But if you actually do like to invest around the cycle, if you don't like to participate in bear markets, then I am someone that you want to listen to, whether I'm right or wrong, I have a thought process. And what I'm saying is that 100% is to what you just said. Compared himself to Powell telling you, we are willing to sacrifice the economy for the greater good. Short term pain for long term gain. We are going to kill inflation. The Fed can't kill inflation, it doesn't know how to grow wheat. It doesn't know how to build a semiconductor factory. It doesn't know how to convince Xi Jinping to lighten up on the zero COVID policy. I don't think Jay Powell has a relationship with Vladimir Putin. Anything the Fed can do to combat inflation is through the demand side.

Now, if we're talking about an economy growing at 4, 5, 6% growth. I'd say hey they have a lot of run room, a lot of cushion to slow things down, they'll get inflation down. We don't, we don't the economy actually contracted in the first quarter. And I don't think we're seeing any growth in the second quarter. Pending Home Sales, which is the gold standard for the leading indicators for housing has rolled over four months in a row, negative 8%. Year over year, housing is going into a recession. Is that a big surprise looking at what mortgage rates have done. The consumer even with all those savings, you see the consensus says don't worry about the consumer, they're sitting on $2 trillion of excess savings on their balance sheet. But what's the assumption that in a recession, they're going to spend that money, because in a recession, people get

nervous. And so that excess savings is just going to stay as excess savings. And then when you're taking a look at the leading indicators for capital spending, companies now are going to be hunkering down. And all the while the Fed is raising rates, interest rates matter for a leveraged economy and a credit driven economy like the United States. And on top of that we have a surging dollar, which by the way is going to look after imported inflation. Make no mistake about that in the coming year. But look what the dollar is doing. And the stock market is telling you exactly what I'm saying right now. Because the sectors that are declining the most are the most economic sensitive sectors of the market. You'll say well bond yields, bond yields haven't moved, bond yields have actually gone up, yes, but take a look at what's happened here. You know in the past two months, it's hard to believe that two months ago, the 10 year treasury note yield was like 1.6%. I mean, it's almost doubled in a two month span unheard of. But you see what's interesting is that inflation expectations haven't moved.

What's moved is the real interest rate in the bond market and the term premium because that's what the Fed has moved. Everything's happened in the bond market. Despite all the narrative has not been about inflation. It's not been about inflation. In fact, if you want to see about inflation, draw yourself a chart a copper. It's broken down. And the basic material stocks, which is the poster child for inflation, the stock market is in a correction mode. I have to tell these two people because they don't want to believe me. They just believe that we're in a new era of, we're in a whole new paradigm of inflation. The inflation indicators are starting to roll over. And that's why I do think this fed tightening cycle being truncated, but as we've seen in the past, the Fed has this natural tendency to overdo it on the easing cycles as they just did and overdoing it on the tightening cycles which they did in 2018 and which they did back in, you know, in 2005-2006. Before that, 1999-2000. It's why we have cycles, we have the Fed to create these cycles, we've had 14 Fed rate hiking cycles in the post world war two periods 1950. Eleven calamity economic recession and it's not a pure coincidence.

So I'm saying that we have an over 80% chance of recession if you look at the historical record, but actually, I'm being very conservative when I say that, because I can see it staring me in the face. And the Fed is willing to do that the Fed when he compares himself to Volker, it is code for I'm going to sanction a contraction and aggregate demand to get inflation under control. And so when you go and take a look, historically, in recessions, the stock market, and this is just an average with a wide dispersion is down 30%. Now, some sectors have done a lot of heavy lifting, but the overall market is not down 30%. And as I said before, the ultimate decline, considering the starting point of the bubble, and we were in a price bubble at 1400, we were in a price bubble. And as they say, the higher they are, the harder the fall. That was a spectacular case back in 2000. It's less spectacular this time. But still, it means that the lows in the market are far out there and far below where we are today. People don't want to hear that that's fine. You don't want to park with your beloved portfolio, you fall in love with your equity portfolio. Well that would suggest then, you know, sell call options against them and buy some insurance policy against what is likely to be a few further down legs to the story.

Erik: So far, we've been talking about the domestic economy the reasons that I think we agree that the Fed almost needs to engineer a recession on purpose in order to fight inflation.

But I was really interested by the Feds survey published Monday of this week, it did say 68% of respondents feared the Fed over tightening, which is what we've been talking about. But 75% cited the Ukraine war. And what really got my attention was 41% of participants cited concern over foreign divestiture of US dollar denominated investment assets. That's a category that didn't even exist in the previous report. There was no mention of it and all of a sudden 41% are concerned about foreign divestiture of US assets. Is that part of what's driving this equity market sell off?

David: Well, I don't know why it would be because you know, the US isn't alone on the bear market in equities. It's a global bear market in equities. So this is not a US centric story. Emerging markets are way down, Asia is way down, Europe's way down. So to pin this on some loss of confidence in US assets makes no sense to me whatsoever. You had this concern that there'll be a payback from the US freezing central bank reserves by Russia. And you know, talk of how the Saudis will be pricing oil in renminbi. So I mean, I've heard all these stories for so many years. I remember that when the Euro the Euros IPO, back in 1999 was 1.18. Where are we today like 1.05 and all you heard about was so the new kid in the block is going to replace the US dollar. No, sorry what was very interesting in this that despite all the talk of the loss of confidence in us assets and maybe that's how Americans feel but it can't be how foreigners feel because somebody out there is driving the US dollar up to 20 year highs. The US dollar I'm pretty sure he's about the only currency in the world that's up 12% on a year over year basis. I will grant you that even Sterling which has lost that reputation is definitely not up 12% year over year. The US dollar is so I my temptation might be just to fade that survey altogether.

Erik: Let's move on to precious metals a subject near and dear to many of our listeners hearts and boy not performing very well at all in this environment in many ways. You know we've got the inflation that everybody feared doesn't seem to be driving precious metals prices any higher?

David: Well, again, this is a case of, you know, beauty being in the eye of the beholder? Because I'll tell you right now, if I do you the chart of the yen price of gold, the Sterling Price of gold, and the euro price of gold. Well, you'd be impressed. They're at near record highs. It's just been so people look at gold to make their assumption that gold is doing poorly. But no, it's actually just it's been a broadly based run up in the US dollar. Because in these periods of rising rates, liquidity starts to become an issue. And there's nothing more liquid than the US dollar. And so the US dollar is going up against everything. I mean, look what it's done against the Canadian dollar. The Canadian Dollar is supposed to be a Petro currency. It's been slip sliding away. The Australian dollar and the New Zealand dollar are the poster children for inflation. Aren't we supposed to be in a big inflation cycle? I'm supposed I'm told we're in a whole new year. Well, at first a whole new era of inflation. And people on the line believe that, you really have to answer why is it then that somebody in the investment community is taking the Australian and New Zealand dollars lower? That's not normal in a new paradigm inflation environment. The US dollar has gone up because of liquidity concerns. And gold looks like most other currencies, except for the fact that it's actually outperformed the three major currencies. I'll just tell you right now. Year-to-date if you're looking against the Yen, Sterling, or the euro gold is

up more than 10%. And you know, what's very interesting is that, when I mentioned this to people, the first question back is can you send me the charts? Sure, I'd love to. So gold, I'm nervous about gold, when it is a broadly based decline in all currencies, I get worried about gold. But this is a US dollar story. And it's a very overcrowded trade. So gold has held in extremely well against all of the currencies. And I would say that at some point, the Fed will cease a desist, we'll have a nice interest rate rally, in terms of yields coming back down, the US dollar will come down, and gold will break out again. So don't give up on gold. This is a US dollar story. It's not a gold story.

Erik: Let's move on to interest rates. Obviously, with the Fed fighting inflation. The way to do that is to raise interest rates. How much farther can this go? Where do you see the 10-year yield headed from here?

David: Well, look, the markets are giving us a lot of good information we may have peaked already. And now lo and behold, we're back below 3% on the 1-year. Not that I ever thought we'd see us above two 3%. But we got there. But you know, markets have this nasty habit of overshooting undershooting in both directions, you have a lot of inflation. And you have a lot of Fed already priced in to the long end of the US yield curve. I think it actually, you know, offers some value here. And especially you know, you can pick up a dividend yield on the S&P of one and a half percent. Or you can buy the 10-year note at 3% even more at the long end of the curve. So the one thing as I said before, is, at least with this backup and yields, we can take the N out of TINA. That indeed there is an alternative. I think that the Fed look, the Fed is doing everything it can to enhance its credibility. It's come under attack from the markets, from the media, from Congress, even the White House has pressured the Fed not in the way that Trump did. Trump wanted the Fed to lower rates. Biden is, you know, campaigning aggressively against inflation. It's like public enemy number one. So I guess we're going to replace an inflation shock with an interest rate shock. I'm of the view. I by the way, everything I said before, I think it was unnecessary for Powell to turn as hawkish as he did. I think it was a net not that the Fed shouldn't raise interest rates. And I'd be the first to tell you that when Biden came out with that budget buster in March of last year, the Fed should have stopped QE. There's no reason why the Bank of Canada would have stopped QE like four or five months before the Fed did. The Fed kept on easing policy and buying mortgage backed security. So adding stimulus to housing as the housing market was going on steroids? I don't blame the Fed for that. I blame the Fed for ongoing QE last year. I think raising rates off of zero makes perfect sense. But I think now they've just gone. I mean, Dr. Jekyll and Mr. Hyde. And now did you did it? Does anybody in line believe that even three months ago, we'd be having debates whether they should go 50 or 75? Well, we've come a long way. I think this economy is very fragile. I have a lot of data and a lot of modeling telling me that inflation is going to come down significantly in next year. And as would have been the case even a Volker didn't kill the economy inflation would have come down, maybe not quite as fast. It's amazing what happens to inflation when you kill demand, inflation falls pretty fast.

But I think that, you know, it's already too late. The impact of both rates, and the Fed certainly is committed to 50 basis points. I mean, they mentioned that the next two meetings, they're

certainly gonna, they're gonna go 50. At the next meeting, just five weeks from now, as I say, in French, les jeux sont faits, I think that the gig is up. And then you've got this tightening. I mean, US export sectors, two and a half trillion dollars, you know, the economists say, Oh, don't include the exports, forget exports, some sort of exports, the economy's doing fine. It's a two and a half trillion dollar support for the US economy. And it's all domestic production. But we're told by the intelligence here to, you know, don't focus on exports, which are going to get crushed by the lagged impact of the stronger dollar. So we have a lot of tightening already in the system, I could see the Fed to tell you the truth. This is why I say stick with gold, because I can see that the Fed probably is going to move rates despite the bravado. I think they move rates one more time, I think they have one, they are going to have the capacity to move rates one more time before things roll over and start to get ugly. And I think they'll go on hold. I don't think they're going to hold your hand as an investor in the equity market and say, Oh, we're cutting rates again, that's definitely not happening. But they'll stop tightening. They stopped tightening, you're gonna have a huge rally in treasuries, and the dollar will go the other way. And by the way, gold will do spectacularly well. And I think that's going to happen this summer. I think this summer, the Fed is going to go on hold people stare me like I'm insane when I say that, but I said you're talking about Powell, the pivoter. He told us in December 2018. I'm not stopping at two and a half. He said I gotta go above 3%. And he got stopped out at two and a half. Next thing you know, he's actually cutting rates in 2019. But of course, inflation was 2%, not 8. They're not easing policy anytime soon. Okay but all they have to do with this stage to generate a rally in treasuries based on what's priced in remember, you have a 3% funds rate priced in, what if they stop at 2? The Treasury -yield market will adjust. And by the way, because of the inverse relationship between yields and gold, gold will do extremely well in that environment. Be patient. This is only a few months away. If this call was prescient, it's going to be coming this summer.

Erik: Final question, David. We've had several guests tell us that the beginning of a massive new commodity supercycle bullish commodity cycle is just beginning sounds like from what you've just said, you might think it's already over or as commodities have already peaked. Is that right?

David: You know, last time I heard all that rhetoric was in 2008 and back then it wasn't about greening the world. It was about Chinese voracious demand for commodities and their double digit growth, global decoupling, and all that nonsense. I think you can argue that the commodities that will play a role in the greening of the world have a secular tailwind. But commodities are also cyclical. I get nervous when people talk about the supercycle in commodities, because it's usually signs of a market top. It reminds me of when Robert Hall of Toll Brothers back in 2006, on CNBC told the anchors that housing was no longer cyclical that there was a new paradigm in housing. I'm not an advocate of new paradigm. I don't believe in those. Those are fairy tales. I do think that there are a lot of reasons why you want to be bullish on LNG in North America. I think there's lots of reasons why you'd want to be bullish on uranium as Europe. This is all about a fundamental story that we know is going to have to happen, which is how Europe diversifies its energy uses away from Russia. So there are areas like I said before, LNG is I'd say pipelines, I'd say uranium, obviously. France is going to be the really the

poster child for how Germany is going to have to respond through nuclear God forbid, but you know that that's going to happen. And then you have the reality that the world over time is going to move towards electric vehicles and the impact that's going to have on a whole array of materials that are in shortages. And so I do believe that notwithstanding you know, the bullish rhetoric on the new paradigm on commodities and the supercycle that there aren't commodities out there that have strong supply side characteristics. But we have to also remember that there are commodities that also have. That they do have cyclical characteristics as well. And you typically don't want to be long the commodity basket, say, the CRB or the Bloomberg commodity index, or the Goldman Sachs Commodity Index into a recession. You could be bullish on oil. And I can understand that over the next several years. But, you know, if we have the recession that I think we're going to have, I'm not saying well, it's going to $50. But I could see oil going back to $75-$80, which is just fine. It just means that as an investment, it's going to correct from where it is today. So I'm trying to just discern here between the you know, short term cyclical characteristics, and when I say short term cynical, that's a year against what could be a 5-10 year horizon.

Erik: David, I'm going to only push back on one thing, which is when you say that there are no paradigm shifts, I can cite one which is for decades, your breakfast with Dave newsletter was already legendary on the street. But let's face it, by your own admission, for a lot of those years, you were under pressure from your employers, to say what they wanted you to say. There is, I would say a new paradigm, which is for the last couple of years. Rosenberg Research is not under pressure from anybody. Has that changed how liberal you can be with the truth in breakfast with Dave and for anybody. I can't imagine anyone not familiar with it. How could they find out more and is it possible to get a trial subscription?

David: Yes, absolutely. So an answer your question, I started the business. Look, I've been I think every anytime you work at a company, and you're on the sell side or the buy side you're going to be under pressure to always have a positive story to spin. I did my best to resist that. I never published anything quite often, I would just pull the piece if I if I felt that was just changed too much. So you've got to maintain your self respect and you've got to also maintain your due diligence and your responsibility to your clients to always tell the truth. And so yeah, it's a running my own firm has been a godsend in that respect, because I don't worry about hurting people's feelings. It's not you know, you should not take our views on the financial markets like it's religion, you know, it's just a view based on homework, and people will come to different conclusions. But if I come to a conclusion that is not bullish, I like to go ahead with it. without it having to be cleansed. That's a really great feeling. So yeah, and I'd say that people who have followed my work for decades nevermind back to classical stuff from Merrill Lynch. Back to the old days of the Bank of Montreal, and Scotia in the 80s, people who follow me for 30 years have told me that the stuff that I'm pumping out today is the best it's ever been. And that means a lot and consider the team I especially had at Merrill Lynch, which was in the top three ranked for five consecutive years. So in terms of getting in touch with me, I would just encourage everybody, just to Google Rosenberg Research. You can go on the website, and there's a function that you can get the free one month trial, and, you know, kick our buckets for a full month. You get everything that we do. The dailies, the weeklies, the monthlies, the webcast, the

special reports and that's how we like to do business as you want people to know exactly what it is or their what would the experiences for a month before they become a client of ours and we have annual subscriptions. You can buy the premium package at a huge discount, but we have an a la cart as well that you can buy individual products as you see fit what fits into your budget. You know, short of that, you know, feel free to call me at any time 647-802-4146 or go on the website Rosenberg Research. Just Google the words and it'll take you right there and if you do want to call me be happy to chat with you.

Erik: David, I can't thank you enough for a terrific interview! Patrick Ceresna and I will be back right after this.