Tian Yang: Is it over yet? What do the data say?

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Erik: Joining me now is Variant Perception's Tian Yang is still head of research, but he's also taken over the CEO position. So, congratulations on that Tian.

Tian: Yes thanks, Erik. Great to be back on MacroVoices.

Erik: Variant Perception's research is some of the best in the industry and Tian's colleagues at Variant Perception were kind enough to share with us, the May 5 leading indicator watch. Now out of respect for Variant Perception's paying subscribers that is a few weeks old so it's dated but still very much relevant. Tian, I really want to dive into this because you know my take has been I think the Fed is intentionally trying to engineer a recession. But frankly, I'm not nearly as data driven as I should be. So let's dive into the data. Listeners, you'll find the download link for that May 5 leading indicator watch in your research roundup email. If you don't have a research roundup email, just go to our homepage, macrovoices.com. Click the red button that says looking for the downloads. Tian, let's dive into this and talk about what's going on data wise. Are we looking at just a little blip here or is this a recession coming our way?

Tian: Yeah, that's clearly the kind of top of the mind question for investors right now. We try to measure the business cycle in hopefully in an objective way. And so, often when we think about recessions and business cycle, we're often trying to incorporate both kind of soft financial market data, survey data, as well as the hard kind of economic data right? You know, the raw kind of real economic data and combining the two. So overall, when we look at our models in terms of the cycle. We were still more leaning towards a mid cycle slowdown right now, as of what we can see in the data. The kind of really bad inputs of things linked to liquidity. So as you say, the Fed is clearly tightening financial conditions, you know, straining excess liquidity from the system. A lot of indicators, we try, like the CFI which is a diffusion of global central bank policy, that's very bad. So the liquidity front is very bad. However, in terms of the hard economic data, it is slowing but it's not quite at levels you typically see going into a recession. So typically going into a recession, you tend to see kind of a major drop in building permits, say up to six months ahead of time, you tend to see kind of a huge surge in initial claims off the lows. And so some of these things are starting to slow a little bit, but we're not quite there. So I think as of right now, I think we're still probably more thinking it's more of a mid-cycle slowdown than an outright recession. But obviously, what we need to do is essentially as the data evolves and just see how it plays out.

Erik: Tian, let's dive into some of the major points in this May 5th report. Looking at page one, you start out by saying with the Feds meeting behind us, the bond and equity roadmaps are still looking for evidence that CPI has peaked before you would recommend adding duration and you go on to talk a little bit more. Tell us where that stands. What's your outlook? How do you see this right now?

Tian: Yeah, so this is what I think we're getting getting close to the point of inflection .Our lead indicators have been pointing to the March CPI print as the peak. And obviously the April printing was slightly lower, right, obviously surprised on the upside but genuinely slightly lower. And so based on our models the May print should hopefully confirm that inflation has peaked. So I think as long as the inflation peak is it and given a lot of the technicals around how balanced trade, right, like we're into the seasonal period of the year where bonds tend to rally. Yields tend to come off. So potentially, a lot of things are lining up to target kind of June as a time where we'll probably start getting a lot more comfortable looking to buy dips on duration and get along. You know, a lot of the trading models we have on there, like the LPPI models have all kind of basically played out right is targeting kind of beginning of June was when the crash period is over. So that's kind of roughly the plan right now. So as long as we see the May CPI print confirm the peak again, then, I think that that'd be a pretty good entry point it feels like.

Erik: Now when you talk about confirming a peak is your view that this whole inflation experience has been a result of COVID related supply chain issues and therefore is likely to be entirely transitory or are we talking about just an interim peak before the next cycle maybe goes higher?

Tian: Yeah that's a great question. I mean, I think the truth is always somewhere in between, isn't it? It's not probably 100% one or the other. I do think the general level of inflation is higher going forward, just because you're going to have a lot of the structural factors, you know, like globalization, right, US-China tension. All these factors that have helped facilitate lower inflation, those are gone. But clearly the COVID supply chain disruptions, China lock down, all these things have had an impact in the short term on inflation pressures. So those are obviously starting to go away. And obviously, as the Fed tightens, naturally, some of the steam will come out of housing and so forth. So you won't get as much of a kind of upward momentum in inflation. It doesn't mean we're going back to 2% anytime soon. So I think in terms of equity Fed put we're still quite far away. But you know, in terms of how bonds are likely to trade I think as long as the second derivative turns negative, that there's probably quite good opportunity to position and trade there.

Erik: Now, global liquidity and growth indicators are still deteriorating. So it seems like we're not to the bottom quite yet.

Tian: Yeah I'm with you there. I think generally speaking the level of long, you really want to have both growth and liquidity kind of tailwinds behind you. And unfortunately right now, we're

still kind of working through some of the lagged effects from even the hikes around the world that that went in last year right. Obviously, a lot of EM Central Bank's aggressively kind of pre-loaded hikes. And obviously, this year all the DMs central banks are obviously hiking as well. So yeah, I will say in terms of the the six month outlook, both growth and liquidity wise, it still looks pretty bad. I mean, the literally the only good point right now, is that our recession model which is the kind of one-zero regime switch model, that hasn't triggered. So, this is probably the mid cycle slowdown and kind of 2012-2018 you know, obviously we've seen the S&P crash is ugly, but it probably will turn into an 08 style ugly at least according to our models right now.

Erik: Okay, but US leading indicators are rolling over per your own research. So what does that tell us?

Tian: Well, I think a growth slowdown doesn't necessarily mean a recession. So what's very interesting is if you run say analogs of how the price action economic data look. The closest one you can come up with is actually 1984. And this is really interesting, right? So if I didn't tell you it was 19 before and I just described, the US equity markets peaked at the year before and then had a big drawdown, you know, bond markets was selling off, yields were surging, because it was a big inflation scare, right? That kind of describes this year pretty well. And that was 1984, kind of the beginning of the year, March. And then what you had was you had inflation very quickly peak and rollover which with a slight lag, allowed bond yields to come off. And eventually by kind of September, equity markets bottomed out. And it's really interesting, went back and read some of the New York Times articles around that. And again, you can just see, even back then there was a lot of talk about, essentially the Fed put right, there's lots of talk about the market turn when the Fed intervening. So it's interesting to see that not that much changes over time. So I feel like that's probably a more interesting analogy today. So it doesn't mean that the equity sell off is over. But, probably give slightly more comfort then to say that this is say 2001 or 2008 with a major, major kind of crash ahead of us.

Erik: Now, a lot of analysts have suggested that the thing to watch is China's recovery, because we have the luxury in North America of having better vaccines. We've kind of gotten out of lockdown mode. China is just barely coming out of lockdown mode. The Shanghai lockdowns just ending a week ago. What are the data telling us? Is the pain for China over or are we about to see a recovery there?

Tian: Not really. I probably describe it as more as we're seeing an L-shape and is trying to bounce a little bit, but it's not really bounced. The rhetoric has probably been a lot more aggressive than the actual policy actions. For the talk about ending the kind of regulatory crackdown or the talk about supporting the economy, 5.5% GDP target. There's been very little in the leading data. I think all we've seen is things have stopped getting worse. But it's not really getting better unfortunately.

Erik: Let's talk about LEIs and the Eurozone.

Tian: Yeah, so I think Europe obviously with the Ukraine war and energy shock. This is a situation where the LEIs probably painting a slightly more optimistic picture than the actual underlying, which is saying something because the LEI is also pretty bad. So, we're probably on the verge of a recession in Europe, if we're not in one already. I mean there's things you can look at, for example the economic expectations survey right? Like that's basically so low that every single previous time we hit the level it's been recessionary. So, the ECB seemed pretty determined to focus on inflation hike. So Europe looks extremely vulnerable right now.

Erik: Now, the last time that I had you on MacroVoices, we talked about your thesis for a new commodity supercycle. Well, boy, you nailed that one. But it feels like maybe we're running out of steam or at least taking a breather here. What's going on?

Tian: Yeah absolutely. I would say a lot of the structural, long term five year plus factors we talked about back then are still valid. So, a lot of the supply constraints, right? The capital scarcity, the shift towards inflation in the commodity as an asset class. Those are still valid, but unfortunately, a lot of the shorter term cyclical indicators, and the tactical indicators are now saying we're probably due for intermission. So, if you even go back to look at the early 2000s supercycle it wasn't necessarily you know, a straight line for outright you still have periods like, Q4 of 2004, second half of 2006 where essentially you trade sideways with extreme volatility up and down, and so it seems to us were more trending towards that kind of a setup right now. And obviously if you just you've just Google supercycle right like most people talking about it now so this isn't that contrarian anymore right there's probably better opportunities. So we're probably going to wait if our global lead indicators for growth for liquidity start to bottom or turn up, if China turns up then yeah, maybe that'll be the time to get back in on the commodity supercycle play. But yeah for now, I would probably characterize it as a as an intermission.

Erik: Now energy, of course, has done extremely well. I expect it to continue to do well. I fortunately been involved in that market. But I kind of missed this supercycle in terms of copper and other commodities. Sometimes commodity cycles and equity cycles don't really line up in terms of their timing. So with respect to the things I missed that I'd like to buy the low in when they eventually hit their bottom. Do I want to look at something like copper is coming before the bottom in equities or after the bottom in equities? How should I think about this?

Tian: By the way, I'm fully with you on energy, right? So I still think energy setup is probably the best. But I will say right now, we are in the phase where because of all the uncertainty around China, you probably don't want to jump the gun too much, right? Like I think if I reflect back on the history of VP and things we've done well and badly. The mistakes, a lot of the mistakes that stand out to me are when we've overridden kind of our excess liquidity indicators, right? Like tried to turn to bullish before the liquidity conditions justified it. And so I think this time around is probably most important to try and avoid that to let the liquidity picture play out or let it stabilize, let it turn up. Because even then, if you buy a say even 20% off the lows, you'll feel so much more confident kind of chasing, lifting offers on the right hand side and knowing you're

gonna have that runway. Well I think the challenge before that, in terms of getting long as there's plenty of good news priced in right. I think that's the challenge right now.

Erik: Tian, I just love the graphs and charts in b\your report. and I strongly encourage our listeners to download this and peruse the entire thing because it's really terrific content. We don't have time to cover every single bit of it. So let's skip ahead to page five, because I want to talk particularly about inflation. As we look at these charts here, how do we know when we get to a peak? How do we know whether the peak is a short term peak or long term peak? What is this telling us and what can you do to expand our understanding of this inflation situation?

Tian: Yeah sure. So in general, in a quote unquote normal business cycle, inflation tends to be one of the most lagging indicators. So it will tend to reliably lag the move in kind of growth two years earlier. And so if you look, a lot of the inputs that are going into our models, they generally in terms of where we set the core anchor is a lot of things linked to that. So if you just look at kind of previous manufacturing activity, you look at previous temporary employment activity and so forth. That's kind of the anchor. Now, obviously as we discussed earlier, this time around, there's so many kind of supply side shocks so we need to capture things like commodity prices, ISN prices paid. And so when you put the two together, as you can see right now, we're mostly pointing towards a peak as rolling over but not necessarily the top price. So this is more like a plateau, rather than, you hit the peak of the mountain, and it's kind of coming off. I think the one really interesting area right now will be in housing and shelter CPI. This is kind of basically the biggest wait for the US basket both core and the headline. And right now given the surge in mortgage rates and a lot of the housing data has been weakening, and that typically has a pretty good, reliable relationship to kind of shelter CPI. I think a lot of the market commentary people have been quite confused about shelter CPI because they underperform so much kind of last year and now surging higher but actually a lot of this has just basically to do with how the data is collected and some of the eviction moratoriums that had been affecting the kind of rent, observe rent, and imply rent component. So, the fact that housing CPI underperformed so much in 2020 was is basically very easy to explain because typically, when people go out to collect the data for the survey, they don't go survey or the kind of parts of the country at once, right. It takes some time to get through all the countries. So there's an inherent lag to reflect the changes in the data, and at the same time, because of the eviction moratoriums, even though asking rents were going higher. A lot of the actual realized rents did not so you kind of had this undershoot. And now that moratorium is over as a collection rates pick up. Now you kind of compensating for what was this overshoot inflation. So this is basically going to come out of the data in the kind of basically the next three months, right? So, as this comes out, then you would think the housing CPI kind of settles in. You know, still gonna be high but not at this crazy level. So then from here, I would imagine that the narrative or inflation really does move away and we've had to have more comfort around kind of peak inflation.

Erik: And again listeners, I'm gonna recommend that everybody look at all of the terrific graphs and charts in this deck. But I want to move on now because Tian I think the real bottom line here for everybody is look, we've got this very significant sell off in equity markets. To put it simply, the trick is to know when it's actually bottomed so you know when it's time to start

buying that blood in the streets moment. It sounds like you don't think we're quite there yet, but maybe getting close. So how do you know and what's the strategy that listeners can employ in order to manage risk in this environment?

Tian: Yeah, I mean that's a great question. You know the old adage right, they say they don't ring a bell at the top of the bottom. But I would like to reframe a little bit as it might not be one bell, but let's say five bells. And the five bells are basically different aspects of the economy and markets that you can go through almost kind of checklist style and tick off. And so we would probably frame as essentially, the five are the corporate activity, valuations, economic outlook, how the market is trading, and sentiment, right? That's kind of the five big buckets and you can kind of work your way through each one to get a sense of are you seeing the signs that typically are there at a market bottom? So for example, let's say corporate activity. Well, obviously we've seen the kind of the SPAC IPOs boom last year, right or like the beginning of last year. That's over, right now the corporate activity is much more reflective, where you would be seeing market bottom right, there's no IPO activity, and the valuation is kind of coming off, VC funds are suddenly backing away. So for example on the corporate front, you'll be like okay, we're probably seeing some signs that needed at a market bottom. Here, the missing pieces will be things like actually seeing some major bankruptcies on corporates and seeing some major hedge fund liquidations and obviously, in the news, we're starting to see more kind of more these hedge fund type liquidations right. And maybe we'll see some big high profile corporate bankruptcies of distress as well as typically when you see a major kind of market bottom. Valuation wise, it's probably more mixed signal, obviously some parts of market cheaper than others, housings kind of price were really following recession I will say but overall valuation is probably like a neutral.

In terms of sentiment yeah for sure. We're kind of getting towards it, pretty bad environment, right? Like, you just have to scan kind of news, talk to people and like the sentiment is extremely bad right now so I will say that probably fits. Market wise and maybe we can get into this a little bit later on. But I think yeah, in terms of how the market is trading, I think we're seeing more signs that would, would be that our bottom. But here, I think it's really important to have a framework and data. It's a bit like that kind of Lenin quote about how you know, they are decades where nothing happens and then there are weeks where decades happens, right. And I think that the problem is during a bear market and a crash, you are forced to shorten your time horizon, and really pay attention to kind of what's driving the market tactically in terms of flows and positioning and bull markets and so forth. So there, I will say it's kind of half a tick right? You're seeing things but not everything. I will say that the major missing piece in the market bottom. And obviously we kind of walk through a little bit with that is on the economic outlook front. Typically, what you see at the bottom is that the economic data, both in terms of hard economic data has been terrible. And the central banks have been easing for a while. And obviously, we have the kind of exact opposite of that right now, where the economy data is only just kind of starting to deteriorate and central banks are still in full hawkish mode. And so I think that that's the real challenge right now, without that economic confirmation. It's not super obvious what's going to motivate the corporate activity to ship freight or what's going to motivate the sentiment to shift. And so without that you're kind of just left with, you know, the only reason

things going to rally is because everybody gets bearish and that they are no more sellers, right? and that just means you get sharp bear market rallies. But just because you've got bear market rally doesn't mean it's a sustainable bottom to kind of really bet the farm on again and I think that that's the challenge right now.

Erik: Now, one of the views that I've had and I admit that it's not well qualified with data is, you know, it feels to me like this whole equity sell off has been remarkably orderly, considering the magnitude on a percentage basis of where we are down almost 20%. From the top, I don't really see many signs of panic, we're trading in a fairly defined steep but still well defined down sloping price channel. We're not getting too far away from the short term moving averages. That suggests to me that the retail panic, that capitulation moment hasn't happened yet at all. Is there any way we can use data to quantify that and either prove or disprove that idea?

Tian: Yeah absolutely. And the data will confirm your view, right? I think for example like if we look at volatility markets, there's a number of signals you can extract from vol markets to confirm this kind of panic or stress. Typically, the changes in the VIX and the S&P are kind of two sides of the same coin, right? They're highly correlated. So when they diverge that gives you actually a lot information about what's going on. So we can build say cumulative advance-decline lines that track VIX outperformance or underperformance versus equities. And so typically what you will see at the bottom or in the kind of panicky sell off is actually VIX outperform on the way down, right? Because that shows when the market sells off, everybody panics, a bit of volatility, they buy insurance, and then you get that classic wall of worry to kind of squeeze the market. We have the opposite today, the VIX has been underperforming on the whole kind of sell off. So that's not the kind of option market panic that you would normally see. Right and that's obviously to your point, not the best sign that, you can extract signals by looking at say, realize versus implied correlations. And again, correlations are up a bit, but they're nowhere near kind of where you would really see a major panic. So yeah, like there's a number of things that make you think maybe we haven't really hit the big bottom yet. And obviously anecdotally, the real big concern is that because this is a tech-lead sell off so are you the market leader from the previous bull cycle, that you know, the pain hasn't fully wound its way through, you haven't had the kind of cascade of selling. There's a lot of talk about in terms of private sector and private market stuff, a lot of valuations on a lot of the tec previous hot areas haven't necessarily been marked down as much as the public. So I think there's a lot of reasons to think that there could be a vol explosion coming, right. It's a bit like, you know, we always use kind of as an adage about volunteers is a bit like forest fires, where if you rush to put out every little fire that central banks have been doing for so long, what you end up with is a incredibly dense overgrown forest. So then when the central banks step back, and the fire starts, its just going to burn like crazy right and just burn everything. And obviously, we see in the news on California a lot. And I think that's the real worry right now where the central banks stepping back, a small fire could really turn into a big one.

Erik: Well help me reconcile this because it seems to me like, the way I would interpret a lot of what you just said is that this bear market hasn't even really begun yet in the sense of so far,

we're just seeing a little bit of orderly selling, the panic, the retail exit hasn't even started, that means that there's much further to the downside. But on the other hand, I could also make the argument to say look, what's been driving this sell off has been the Feds tightening cycle, something that most retail investors don't even understand. So they're probably not going to panic based on that. Maybe we just have to go through the market's reaction to Fed policy. Fed policy is changing. Maybe that means this is the bottom and there's not going to be any panic, because retail is not going to be involved in this bear market or it hasn't started to so far. How do I resolve that conundrum?

Tian: Yeah. So I guess the way I will frame is I will start off with our recession models. And again, because our recession models don't foresee an imminent US recession. So immediately, I'm in the mindset of this is a mid cycle slowdown like 2018 or 2012 style sell off, right. So that naturally limits how much of a sell off we can have. So I think that probably leaning slightly more towards this isn't going to be a major crash. But clearly the pain has been put in. So that's the first framing. Obviously, a lot will depend on whether recession does come on now. And obviously our models right now haven't but by the way, our models actually work pretty well, in real time for pretty much most the past 10 years, right. And then the key was actually avoiding a lot of false positives, and not panicking in 2018 and, 2013, and 2015 in these kinds of situations.

So, let's put that as a context. But then the second point really comes back to probably the kind of landing quote I gave earlier where you know a lot of this is because it's a fluid environment, we really have to focusing on time horizons and be more responsive to the market, right? I mean, there's plenty of signs that are panicky, it's just the volatility market hasn't been but there's some signs that, for example, if you look at cyclical versus defensive ETF flows, that's a pretty contrary level, right? Typically markets rally, if you do like a technical analysis, you do like the DeMark style count where we're counting 13, so that there's reasons to suspect you'll get these short kind of bear market kind of short squeeze kind of rallies. So that's why I think focusing in is probably still a good idea, right, lighten up on risk and try to manage it a little bit. In terms of the big picture right where we really end up with kind of that major major bear market. I think it will depend a lot on your views on recession, and whether that hurts because obviously if that hurts, then you're probably going to get that one last big panic leg down. And then from there, the Fed will blink right and the Fed put kicks in. So that's probably the playbook.

Erik: Tian, let's come back to China because it seems to me this is kind of pivotal. China is the supplier of a lot of stuff that the world is running out of and if they're going to end their lockdowns and very quickly ramp back up to full production and still want to sell things to the west. Well maybe you know, we just managed to get off easy and everything's about to turn up rosy from here. On the other hand, it seems to me like if China continues to have difficulty restarting the economy, the dependence on China that the rest of the world has is really going to start to back up and bite us. How do we make sense of this? How can we figure out what's actually happening?

Tian: So I would frame it as, zero COVID supremacy, right, that's still the key in China zero COVID remains the top priority policy choice. So that's the context in which to think about other lead indicators. Other announcements and unfortunately on the zero COVID front to your earlier point, that's going to be a problem for probably a while longer, right? Like China's domestic mRNA vaccines have not been very successful, obviously with a country that big with so many people, and given the tensions with the US that they're not going to buy US mRNA vaccines. So, if they don't have it and they're not willing to buy it, then what they're going to do right? Obviously, they're trying to make their own but it's not happening, it's not easy. So I think that's the problem. I think, for listeners, you might be worth appreciating that it does look crazy, in terms of what they're doing with just obviously these are genuine like prison style lockdowns, right? Like, we're talking about, you're being told to keep your keys in your door. So people who come around and like disinfect your house right? And like literally gates going up over your front door. I mean, it's dystopian from kind of where we're sat in the West.

But the context in which why I think there's so obsessed and so freaked out about it is because in China is getting to be a more of a aging population as a huge number of kind of older people who have not been vaccinated for one reason or another. So if you just apply like even a point one, or like in the West I put 1.2% death rate, you're gonna get a huge absolute number of deaths right linked to COVID and that could potentially destabilize the regime. So I think that might be one angle in which to think about it, in terms of why they're doing these things that makes pretty much no economic sense. So yeah in my mind is like when are they going abandon zero COVID. What you need is herd immunity. How do you get herd immunity without just killing a bunch of, a serious amount of old people, you probably you need to have a good vaccine program. How do you do that? Well, they know they're gonna need to make their own mRNA. And also, they're obviously going to probably triple dose or quadruple dose everyone with whatever the Sinovac is, right. So I think until that happens, the rest of the things probably give you a sense of the potential for a rebounding China but it probably won't be realized until they step back right? Like it's shocking to me how bad sentiment is obviously, I have some connections and I speak to friends and family people there who've been in Shanghai and other places. And I would never imagine just how bearish and pessimistic people have been through this like it is truly shocking to me.

Erik: Tian, let's come back to commodities and specifically, something I think quite a bit about is you know, the whole Western world is telling Russia, okay, we're gonna put you in your place, we are done with buying your oil and your gas, and Russia, the heck with you. And that's easy to say when you're the EU and you're grandstanding for political approval in May. It's a much harder thing to say in October when the weather is about to turn. And, the President of the United States says don't worry, we're going to supply Europe with all the natural gas they need. And it's like, wait a minute, how are we going to do that? We don't have the export terminals. We don't have the LNG ships to do that. Even Bloomberg the day after he said that said, where's that gas going to come from? Nobody's answered that question. So it seems to me that the recipe exists for an absolute economic crisis to occur in Europe toward the second half. If they realize, wait a minute, we already basically flipped the bird to Russia and said we're never buying any more of your gas. And now we don't have a second source and the weather is about

to turn cold. What are we going to do? Am I wrong to think that that's a real risk and how should I think more broadly about this conflict between Russia and I think also China and the West? And what it might mean for commodity supply chains.

Tian: Yeah I mean you're 100% right. I mean, this is the big kind of tail risk. It's funny, we're talking about the politics and I was just thinking to myself, this is like the promises made, promises kept kind of joke, right? Like a lot of promises are made and it's hard to keep. I guess the hard thing to know, is exactly how to position for this. Because, there's a lot of kind of issues with how you actually deliver stuff, right, in terms of the pipelines, the infrastructure, the weather, the ships are available. And so and obviously, these things can shift quickly. So I think from my mind, there's a few kind of key actionable takeaways from this right. One is that commodity producers within the Western sphere of influence, I mean, they're going to be big beneficiaries, right? If you're Canada, if you're Australia, you're gonna be able to demand a serious premium for your things because Europe and the US collectively, they're gonna come to you, right. So I think that's a fairly clear takeaway. The takeaway is that, obviously countries like China will bebig beneficiaries because they're going to be buying Russian commodities hand over fist and try and build up all that reserves and inventories. And that's going to be like an ongoing kind of shift in trade flows. So that that probably is kind of the two more obvious things. Yeah but yeah, the Europe question. I have no idea, right? I mean, to your point, there was like a month or two back there was a podcast was one of the German, one of the CEOs of one of the big German chemical companies, and they were saying, what are you going to do when Russia turns off their Nat Gas? And he was just like well we just have to share everything that, right? And then he's like, what's the implications? It means people are not going to have plastic bags in the supermarket, right? They're gonna have mattress whatever right? Just like literally chemicals go into everything. And then they were like, so do you support the political stance? And he was like, yes. Right. He was, like, we support the government. We will work with the government to kind of reduce long term impacts. Right? I think it's just like, it's a very different mindset. It feels like in terms of this collectivism against Russia in Europe that Yeah to your point is going to compound the problems right? Like everybody can see the problems coming and yet, it still happens. And in a way, this is kind of almost like, what we talked about the original commodity supercycle, right, it's not like people weren't talking about it. We were aware, right? ESG and all these things weren't enough. You know energy and whatever being produced because of all the limits but you knew is going to come back to bite us right? And then it looks like there's a similar kind of setup again.

Erik: Tian, let's talk about some of the tactical indicators that our listeners can watch in order to figure out where this is playing out. Because I think it's very clear from this conversation is basically it looks like we could be getting close to a bottom unless the shit hits the fan in which case all bets are off. We got to be able to qualify that with okay so what do you pay attention to in order to know whether or not the shit is hitting the fan?

Tian: Yeah, absolutely. I think when you think about tactical trading to us, we think a lot about flows and positioning into market relationships. And then we also try to do some data mining and kind of previous price patterns, right, just to get a sense of what's going on. So I think, from a flow point of view is pretty interesting, that a lot of indicators you would normally track is that pretty, it's a pretty extreme levels, right? I mentioned kind of the cyclical versus defensive ETF flow previously, that's a pretty extreme levels, right now that historically, the forward kind of return from here is pretty good. One thing you can track is, say, the closed-end funds, so you can look at the discount or premium, that closed-end funds are trading relative to the NAV. So again, when there's a panic on the stream, people dump those shares, they tend to trade a bit big discount to NAV, so that today, like when our calculations, you know, the trading probably like a 5% discount, typically during a crisis, you get to kind of 10% plus. So again, we're not quite there, but that will be a good thing to track.

We can use the kind of NYSE data on kind of cash and margin balances to proxy for buy flows into US equity markets. And so you can like build as a cumulative thing. So, all our calculations, you kind of pretty much almost reverse the inflow since 2021. So, pretty much most of the inflows that went into markets last year on that proxy is almost kind of out at this point. So, yeah, it's kind of saying to you, yeah, we're probably halfway or more than halfway done at least right in terms of the sell off. A lot of people who got along last year they are out, and a lot of the contrary sounds, you would need to see from a flow kind of point of view, it is there. The other things I mentioned, in terms of in terms of some of the sentiment intermarket relationships. I think one of the really clean but good indicators is to look at the stock-bond ratio. So I say, over the past month, how have stocks done relative to bonds and was that versus history? And today, we're like a minus two standard deviation on that metric, right? It's like, equities have seriously sold off relative to bonds. And typically, that's actually a really nice Q contrarian, short term trading indicator, because usually, there's a lot of mechanical rebalancing flows, that flow from kind of big divergences in stock were spawned performance. A lot of 60-40s or you know these kind of people have to maintain stock vs. bond ratios. Obviously, if stocks crash too much, then they're forced to be kind of stock buyers at month end right? And so obviously we're recording this, just after the May expiry. So going into Month-end, there's probably some kind of buy flow. And these are kind of things that can potentially set off a short squeeze. Back in March 2020, it was kind of the rebalancing flow that kind of potentially started that initial squeeze. Right so yeah those are examples of some of the indicators that can be tracked. So let's at least to get get a sense of what's going on for investors.

Erik: Tian, there are times when one indicator works and there are other times when a different indicator works better. You guys follow so many different indicators, the question I've been dying to ask you is okay with respect to this year's market, not your favorite indicator overall, but with respect to what's working right now, what is the indicator that you've found has been most, most true to its predictions?

Tian: Yeah that's a great question. Um, I will probably frame this as two right. One is in terms of the cyclical six months plus outlook and setting the scene for generally, how you want to be positioned look at Global Access Liquidity without question, right, you need to know what the liquidity conditions are, and whether it supports risk assets for stock. So I would say that's probably the most important kind of medium term indicator. In terms of short term trading wise, I think something that's worked extremely well, this year, some of the kind of LPPL signals that we talked about, right? This is kind of, based on the work that did this on that date, why did market crash? It's capturing a lot of social dynamics, how information spreads through the market. And for example, back in January, this predicted kind of the tech crash, right? Like January 11, it was kind of flagging okay this crash is likely to go, in March should flag that energy potentially has another leg up. So, you know and it flagged the bond crash, so it's been working extremely well this year. And I think it has been because we live in such an uncertain environment where there's just no conviction about anything, right? Like we're not 100% sure where exactly the Fed's response function is, right? Or exactly when the cases are looking at. This is probably the most uncertain environment investors have for anything. And so that's probably a perfectly ripe environment for these kind of social dynamic models to work, right where it's all about, well, when one guy turns bearish, how does he affect the other guys around him? How fast do they turned bearish and modeling that? So yeah, that will kind of be my two answers. Access liquidity medium term, short term will be LPPL.

Erik: Well Tian, I can't thank you enough for a terrific interview. But before I let you go, please tell our listeners a little bit more about what you do at Variant Perception. They do have already a sample copy of your leading indicator watch. And again listeners, you'll find the download link in your research roundup email. For this report for your other services. How do they find out more about your work?

Tian: Yeah just go to variantperception.com and there'll be information there. We're on Twitter, you can follow us there. Obviously, we have a blog. Yeah pretty straightforward. I would say, what we try really focus on is quantifying things, building tools, indicators, and giving you the data right so you can kind of make up your own mind.

Erik: Well your charts and graphs are some of the best in the industry and I always enjoy reading your work. Patrick Ceresna and I will be back as MacroVoices continues right after this.