Lyn Alden: 2023 Macro Outlook

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Erik: Joining me now is Lyn Alden, founder of Lyn Alden Investment Strategy. Lyn 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, just go to our homepage macrovoices.com. Click the red button above Lyn picture that says looking for the downloads. Lyn, it's great to get you back on the show. Last time we spoke, I think oil prices were around $90 or so. And you told our listeners look, you are very, very bullish longer term, but you thought in the short term prices could get all the way down to $70. You totally missed that call. It was $70.08 so you're eight cents off. I think we'll go ahead and score that one as a win. How should we look at it now though? Does that mean the bottom is in at 70.08 or could it be that we've got another wave down and are you still bullish long term? And when do you think this this market turns around?

Lyn: Sure Good questions and thanks for having me back. I'm still long term bullish on energy, the supply demand situation is still long term very tight. You know, especially on the supply side. And now we have China partially reopening to some degree. We'll see how fast or how slow that goes. But essentially, the long term thesis I think, is still quite bullish for the whole space. In the near term. I think that at these, these lower price levels, it's been de-risked to some extent in the intermediate term. At this point, you know, I'm not trying to call a specific, you know, exact bottom on the market, there's still a lot of like a lack of clarity for the next few months in terms of decelerating economic activity. But I think that as you look out a couple years, I think the situation is still quite bullish. So you know, a lot of this clarity in the near term, but still very bullish long term. And I think a lot of oil equities are attractive, I think a lot of pipeline equities are attractive. And I think also, the underlying is pretty attractive.

Erik: Let's move on to your slide deck. Listeners, again, you'll find the download link in your research roundup email. Starting on page two, you've got the decoupling of what so many things are decoupling in this crazy world, which one are we talking about?

Lyn: So this is the unemployment situation and federal deficits in the United States. And, you know, this is partially a demographics observation. And it's also just, you know, the past history of debts and how we got to here. So, basically, starting 2016 or so, you started to see that even though unemployment was still getting better, the federal deficit actually began widening. And so historically over, you know throughout economic cycles, normally, you know, tax receipts and overall federal deficit are very correlated with the employment cycle. But what we saw then was that in large part due to a lot of retiring people of the baby boomer generation and an increased payout to them, we started to see a decoupling where we're, you know, basically even though an unemployment was getting better, larger federal deficits, and that blew out obviously during the whole COVID stimulus pandemic lockdown era. That completely blew off the chart, as you can see there and now we're kind of ricocheting back from that. But when you look at longer term, this decoupling still exists. Basically, no matter how strong or weak the labor market is, you still have structural deficits, well over a trillion dollars a year, 5 or 6% of GDP. Potentially higher if you have weak asset prices, or if you have no further rounds of stimulus or tax cuts.

And on the right there, I have the Social Security Trust. And so basically, for several decades, you had more money flowing into there. And they hold a form of non-marketable treasuries as savings. But now over the past couple of years, you're starting to roll over which is basically that the trust is now taking less money than it's paying out. Again, just mainly due to demographics. It's a more top heavy age population and based on current projections by the Social Security Administration, this is expected to draw down by the mid 2030s. And but we're already on like, you know, the rate of change is now rolling over and as you know in macro, rate of change is everything. And so essentially, this is this is going to be a permanent addition to the federal deficit going forward. And the reason I bring these up is because fiscal spending is a significant part of the of trying to enter the riddle of whether you're going to have structural inflation or structural deflation. It doesn't really affect what's going to happen over a 6 or 12 month period. There's much more cyclical factors at play. But this is like an underlying background thing that we have to be aware of. That really wasn't the case in prior cycles.

Erik: Lyn let's talk about the reflexive effects of the Social Security Trust drawdown because it seems to me that since the 1960s, at least, the smartest people in society have all recognized that the Social Security Trust Fund was unsustainable and as is always the case, the smartest people in society get ignored by the stupidest people in society, until things really start to hit the fan and once the oncoming asteroid that's going to take out society that the smartest scientists knew about for decades. Once it's in sight, and you can see it coming, everybody freaks out and panics all at once? How long do we have before the masses wake up and say, wait a minute, you know, it's not Social Security is unsustainable someday. It's I'm not going to get my payments in the timeframe that I expected to get them. I'm screwed. Now I'm really worried about this.

Lyn: So the official answer is the mid 2030s. And that, that depends on a lot of different factors that can push forward or pull it back by a couple years. The other answers that has already happened to some degree, not that it's near term, but that the effects are starting to impact markets in the sense that there's wider deficits, even under the best of economic conditions. The way that this works is it's actually pretty weighted towards the end of it, right. So because that large pool of capital, oh, you know, nearly $3 trillion is earning interest, it starts rolling down pretty slowly, because the you know, they're eating out of their interest. And then they're also eating into principal. Once they get towards the end, like when they get to the late 2020s, when they get into the early 2030s that drawdown starts to accelerate, because they're no longer earning interest, by you know, with a much smaller base with which is paying interest. And yet, they're still drawing down very quickly. So more and more of that gets eaten out of principle. And so it's one of those things where for next few years is going to look like a tiny draw down, is going to be rolling over slowly, like we see, you know, just beginning to on that chart, and, and then later, it's going to accelerate. So I would say, by the time we get into the, you know, the early 2030s, it's going to be pretty obvious, you know, kind of like how people talk about debt ceiling issues and stuff like that, you know, six months in advance, I think the Social Security trustee become a bigger issue then. But you know, even between now, and then this is going to be a impact on the deficit and kind of a background, mild inflationary force.

Erik: So, moving on to page three, a lot of people including myself are getting pretty excited about gold, which has really started to take off. Now most people think about the price of gold in terms of real interest rates, you've got a different relationship here, tell us about it.

Lyn: So I think I think real estate rates are a key variable to gold, it's not the only variable. And this is less so to show correlation and just kind of, um, to make a point, basically, from, you know, 1980 until the present, we had higher and higher debt as a percentage of GDP. But you also had lower and lower structural interest rates. And so during like the 1980s, especially the late 1980s, you had a lot of kind of peak concern around the debt base, you had just huge interest payments, because you had the combination of rising debt, and you had very high average interest rates. But a lot of those people were early, right, they were concerned early, and it took decades to materialize. And so basically, even though you greatly increased the debt-to-GDP ratio, you offset it by lower and lower interest rates, and so the interest cost was manageable, and that helped reduce the, you know, the possibility of a fiscal spiral. As it's starting to break out, my contention is that, you know, basically as interest rates hit zero, as they start, you know, baby chopping around going sideways now while debt as a percentage of GDP is still increasing, as we go forward, again, you know, through this decade, we're going to start to get, you know, more and more meaningful interest expense, which starts causing a fiscal spiral because, you know, you need more and more treasury issuance just to pay off that much bigger interest burden. And in a very gridlocked political environment, it's really hard to make, you know, kind of a grand bargain type of combination, tax increase, and spending cuts to kind of balance things.

And so this is likely set to continue. And then when you add things like, you know, the confiscation of, you know, freezing of reserves, and just kind of overall geopolitical shifts, I think it is pretty clear that for many nations, gold is going to be favored over treasuries, not in terms of the sense that, you know, nations are going to dump their treasuries to buy gold, but that the marginal buying pressure will continue to shift towards more commodities, more gold, more loans to secure commodities, things like that, and away from, you know, large amounts of treasury security holdings.

Erik: You brought up interest rates and the concerns a lot of us have had about the long term trend as interest rates were collapsing all the way down to almost zero. A lot of people said, wait a minute, this is causing governments to spend beyond their means to the point that when interest rates recover, we're not going to be able to service the debt and it's going to cause a sovereign debt crisis. What are the slides on page four tell us about that?

Lyn: It tells us that it's both a concern, but only on the appropriate time frames right? So if you look at the chart on the left, that shows just the raw amount of U.S. annual interest expense, and you can see that it was sharply rising to the 70s In the 80s, and especially in the late 80s, that's when that's when people freaked out about the debt. I mean, that's when the famous debt clock was put up in New York, that's when you have politicians running as third party candidates, and you know, some of the best performing third party candidates in history to, you know, bring the public debt to public attention. And they ended up being obviously, right, the long term is not mathematically sustainable. But they kind of, in some ways called the top because if you look at that chart, once you got into the 90s and the 2000s, US interest expense actually flatlined in nominal terms, pretty much. And then it rapidly fell as a percentage of GDP. And that was for a variety of reasons, essentially, that was peak U.S. demographics that was like, you know, baby boomers were like peak in the workforce, our labor participation rate was like, you know, structurally multi decade high levels that we've since rolled over from that was, you know, you had all dotcom Money, basically, that was just a very booming time. And so the combination of, you know, smaller deficits, falling interest rates, really helped keep a lid on that for the next couple of decades. And so all the people that talked about, you know, the debt being a problem, were kind of pushed aside, it was like, yeah, yeah, we hear that before.

What's interesting now is that as you've reached the zero bound, and as you've chopped alongside was for a while, and now that we're likely entering another, just more structurally inflationary period, just due to the commodity CapEx cycle, supply side constraints, higher interest rates, more money creation, you know, now that we're kind of the combination of higher debts, and sideways to higher interest rates, is starting to blow out that interest expense again. And so it's kind of like almost like, it's like we took like a two decade pause on all those concerns people had. But now we've kind of, you know, we picked all that low hanging fruit. And now that problem is continuing. And so the chart on the right, that's the one that shows interest expense as a percentage of GDP, and it showed how it's really it's over the past two decades, it's really moderated. But the problem is that now that some of those forces no longer there, there's ever falling interest rates, this is set to begin expanding again, and start to see kind of recreate the problem that people had in the 70s and the 80s, except at a much higher debt-to-GDP level.

So, you know, this is one of those things where people thought it was a problem, the problem never materialized. People got the wrong conclusion that it's never going to be a problem and instead that it's just a delayed problem. And so I think we're actually entering the period this decade, especially by the second half of this decade, where this starts to become more and more of a problem. And the way that it works, obviously, is that a lot of debt is fixed rate. So that applies to the government, right? Their average duration is five or six years. Of course, there's a big range there, they have all sorts of different maturities. Corporate debt is also pretty long term. You know, the consumer sector has a very significant amount of 30 year mortgages. It's very, it's very fixed rate debt. And so just because the Federal Reserve increased interest rates, and just because the bond market increased interest rates, does not immediately cause a lot of pressure, the pressure instead happens quarter after quarter, year after year, the more those interest rates, the elevated and start having some of that fixed rate debt mature and get refinanced at these higher rates. And so for example, over the next, you know 2, 3, 4 years as a lot of the government's short term interest rates, and that's where a lot of it is front loaded, as that increasingly gets refinanced at higher rates. That's what's blowing out the interest expense of the US government, which again, is financed, you know, by more and more debt. And so this is actually something that is beginning to become material. I would say that it contributed to the 2019 repo spike, it contributed to why there was so much stimulus done during the, you know, 2020 and 2021 lockdowns and all that. And it's going to start impacting us again, when we look out in next few years.

Erik: Let's move on to page five, Fed remittances. Boy! Took a nosedive. What is that that's nosediving on the right side of the chart.

Lyn: So that's the Federal Reserve's payments to the US Treasury. And the chart is somewhat misleading because in the middle of the chart, they recalculate how they're actually doing it. And so for example, most of that chart shows the weekly money sent from the Fed to the Treasury. And it was always positive, right. So basically, the Federal Reserve, it has both assets and liabilities. And just like any other bank, its assets pay higher interest rate than its liabilities. And so it earns a profit, it pays its operating costs, it pays a dividend to its owners, and then it has to remit the excess money after all that to the US Treasury. And that, you know, that's average something like $100 billion a year, basically a couple billion dollars a week. However, because they raised interest rates so much and from such a low base, for the first time in kind of modern history, they reached a point where they're actually losing money. So their liabilities which consist of things like you know, reserve's for banks in reverse repos, that's paying a higher interest rate than their average bond book, especially no yield on costs, basically what they bought those bonds at. And so now they're no longer sending money to the Treasury. Instead, they're basically just collecting a bunch of deferred assets, where even if they become profitable again, they get to pay themselves before they would begin sending money to the Treasury.

And so over the past decade, and real quick why this chart is misleading, is because once they turn negative, they start calculating it as cumulative losses. Right? So even though it's nosediving, that's representing now a cumulative figure that now they're, you know, they're more than, you know, $20 billion in the hole. And this is this is accelerating. But when you when you zoom out long term, actually, Jim Bianco had really good charts on this where he kind of went back and made the whole model accumulative. Basically, over the past decade, the Federal Reserve has sent the Treasury about a trillion dollars almost exactly. And so now they're quickly reversing that. But of course, they're reversing it from that, you know, that long accumulation of money sent to the Treasury. And there's a couple of key takeaways here. One is that much like Social Security, this is now a, it's basically a surplus that has gone away. Right. So this is a another revenue source that the federal government has lost now, for the foreseeable future.

And number two, when we see that the Federal Reserve is losing money, essentially, we have to ask ourselves, who's on the other side of that who's actually gaining money? Right? Because that can obviously give us some potential interest for where we might want to invest? And the short answer is that, you know, that money is going to reverse repos, right. So for example, money market funds, you know, managed by fidelity, for example, they're making use of that. And then it's also going to bank reserves, banks are getting paid well over 4%, just to have their cash balance at the Fed. And that's interesting, because if you look at a normal bank account, you know, they're paying less than 1%, on average, for their liability side to their depositors of different types. Obviously, some type of accounts pay higher than others, many times checking accounts are very, very low interest. And so they're essentially borrowing from you for near zero, and then they can deposit at the Fed for over 4%. So they're actually earning a much higher interest spread than they did, you know, just a year ago. And so that's kind of what I'm emphasizing with this chart that it both plays into the prior discussed problems of the US overall deficit situation and point as to potential investment opportunities in the commercial banking sector.

Erik: Lyn moving on to page six, it comes as no surprise that we've seen a tripling really of banks holdings, of cash and treasuries if you're holding treasuries and you're the bank. And that means that you get to make this huge spread on your customer deposits, of course, you're going to be holding a lot of treasuries is that the only thing that's been driving this huge increase? And how come it seems to have come off since the end of 2021?

Lyn: Well, so what this chart shows the percentage of a bank's assets that consist of cash and treasuries. And so it's not the raw dollar amount, but the percentage of their total assets. And so essentially, the lower this figure is, and it reached its low back in around 2008. That basically means that the majority of their asset book is in riskier assets, things that can actually lose nominal value, things like that have credit risk that can get defaulted on. Right. So that can include bank loans, obviously, is a big component, all sorts of mortgages, things like that, it can also include riskier securities, whereas the higher percentage of this is, the more of their total assets are in nominally risk free assets, like bank reserves, Fed and Treasury and agency securities. And what's interesting is that that low that it reached in 2008. And you know, really the lead up to that, that was only matched by 1929. Right, so the right break prior to the Great Depression, basically, both the end of the 1920s. And the end of the 2000s coincided with bank taking on a significant amount of lending risk, basically, that, you know, there was it was the greatest percentage they've ever been exposed to assets that can lose value. And of course, that's protected by their by their, you know, their capital buffers. But a capital buffer only goes so far. If your overall loan book is quite aggressively positioned, because it only takes a small percentage of losses to blow through your capital buffer. And so, going into that, at that period, banks were very, very, very vulnerable. But due to increased bank regulations due to, you know, self regulation by the industry basically not repeat the same mistakes they made before, due to quantitative easing due to the Troubled Asset Relief Program, banks were recapitalized, very similar to how they were in the 1930s.

And so, in recent years, banks have among the highest allocations they've ever had, you know, at least going back to, you know, the, you have to go back to like the 50s, to find a similar period where they were this invested as a percentage of their assets into cash and treasuries. And so overall, banks basically still have a very conservative loan book. And they have a very high allocation to the safe assets. And as we discussed on the on the prior slide, they're getting paid pretty high interest rates on those assets, especially their bank reserves that are basically, you know, they're not taking duration risk, they're just getting paid out a very good spread compared to what they're getting on deposits. And so the point I make with this slide is that a lot of people are at my view fighting the last war, they're always worried about banking crises, they're always worried about like a repeat of 2008. And while I do think that there are a lot of economic problems, I do think we face recession risk, later this year, I don't see the problem emanating from the banking sector, basically, the banking sector would be hit just like any other sector in a recession. But historically, most recessions are not financial crises. They don't emanate from the banking sector, like they did in 2008. And so my overall contention is that the banks are actually pretty strong in the United States, and that they do present some potential investment opportunities, and that this whole story contributes to why inflation is likely to be persistent. Once we get past kind of a, you know, a brief cyclical deflationary period.

Erik: Lyn on page seven and eight, you've got two different examples, one of a bank, one of a pipeline limited partnership, what are these slides about? What are they telling us and what's the comparison between the two of them?

Lyn: So these are some example investments that I use, both for their own sake and just to show an example of what's happening in these industries. And so a lot of people when they hear about stocks, they say, are stocks expensive? Are they cheap? What is the average price-to-earnings ratio of the S&P 500? But of course, that's a very diverse collection of different industries, different companies. And the example here is to show that, especially in the value space, value underperformed over the past decade and has had a rebound since the bottom in 2020. And my overall view is that, there will be pullbacks along the way, but that value is probably the place to be going forward for at least the next several years. Historically, value equities tend to outperform growth equities in more inflationary environments. Whereas growth equities tend to outperform value equities when you have the whole commodity situation under control, that allows valuations to go very high, that allows growth to be priced well into the future.

But when you have more inflationary environments, when you have more resource constraints, when you have overall more inflation, that's when value tends to do well. And so on Slide 7 here, I start with a bank example. So this is the seventh-largest bank in the United States, Truist Financial. Nothing particularly special about this bank, it's just an example that I've chosen that I've done some research on. And essentially, what I'm showing is that right now, the bank stock has taken quite a hit throughout the past year, it's gone down quite significantly, almost as much in dollar terms as it did during the 2020 COVID crash. And yet analysts are pretty bullish. So the black line here is the share price. The blue line represents what the share price would be at its historically average valuation, if analysts are correct about the next two years of earnings. And I actually think they're a little bit too bullish, I don't think they're factoring in some of the economic pain that's likely ahead. But I also think that the market is perhaps a little bit too bearish, I think that the share price here is too low, relative to the forward prospects of banks. I think, essentially, the market is pricing in a decent chance of a 2008 type of event, a bank-centered crisis.

Whereas I view banks, including this one but also many others, have the mid-size banks, and even some of the large banks to actually be pretty attractive investment opportunities. They're historically undervalued, and as we discussed in the prior two slides, they're more conservatively positioned than they have been in generations in aggregate. And due to the Fed's attempt to get, and due to the Fed's attempt to get trades under control, they're earning a pretty attractive free spread on that, you know, less risky portion of their asset book. And so I think that, you know, banks are actually a pretty interesting place, when you look over, say, a five-year period. Now, there are some realistic concerns around 2023. But I think a lot of that's already priced in, and I think this is this is a place to watch over five-year period.

The final slide, Slide eight shows kind of a similar phenomenon that I'm seeing a lot in pipeline companies. So a lot of people when they think about energy, they think of either the commodities themselves or they think of their producers. Whereas another way to play the space is through the infrastructure around transporting them. And you know, pipelines are natural monopolies. Once they're built, essentially, they have a lot of protection, they have long-term cash flow potential, they have a lot of fixed debt on, you know, kind of a real asset base. And pipelines got a bad rap over the past decade, because in 2014, they reached very, very high valuation levels. They were over-leveraged. In many cases, they were relying on continually issuing more equity and debt to finance themselves. And that all of course, came undone when there was a very large oil bear market. And so investor appetite for their debt and equity issuance dried up many of them had to cut their dividends. This this example enterprise product partners did not they were, you know, they're basically a lot more conservative than a lot of their peers. But a lot of them had to cut their dividends. But now, of course, they you know, in 2020, they blew up again, some of the ones that made it through the prior thing then blew up in 2020.

But a lot of that has been washed out now. And a lot of the industry is self financing, which means that instead of relying on constantly issuing debt and equity to finance themselves, many of them are paying for their growth paying for their capex through their own cash flows. And then they're either holding their share count average, or in many cases, they're actually performing buybacks, like you'd see in other industries. And so these are these are pretty high yielding pretty inexpensive assets that make money from transporting energy and refined products and petrochemicals. And I view this as probably a place of five year outperformance because I think that the environment that we're in now with more persistent supply constraints, you know, more persistent inflation. And once we get past this current disinflationary cycle, that can keep a lid on the S&P 500. I wouldn't be surprised if the S&P 500 chops along sideways for five years in a pretty volatile band. And so when you can look at things that are actually pretty cheap, and actually pay a pretty high yield, when you look at total returns over say, a five year period, I think those can potentially outperform, especially on a risk adjusted basis, the S&P 500.

Erik: Let's zoom back out to the 100,000 foot level, a lot of people had forecast a major recession in 2023. And some people say it's already begun, some people say we're off the hook, it's not coming. Where do we stand? Are we still looking at a big recession coming?

Lyn: The area that's been resilient is the labor market. But the labor market has always been a lagging or coincident indicator. And even there, we're starting to see around the margin, some of the leading components of the labor market are looking weak. So for example, overtime hours are decelerating, temporary hires, which are generally more volatile and leading compared to the broader nonfarm payroll measures, those temporary hires have also decreased on a year-over-year basis slightly. And so the early warning signs are pointing towards weakness, even in that part of the market that's been pretty strong. And so I think that we absolutely have to kind of have a baseline that there's a high probability of at least a mild recession. I think where I might differ from the market is that I don't view it as a financial crisis, per se. I don't think it's going to be one of those big, long, persistent, disinflationary, you know, financial crises like a lot of people come to expect, basically, once we went through 2008. Then we also went through this big crash in 2020, where, you know, basically, that once again killed oil prices that once again resulted in spectacular losses, at least temporarily. I think this is more of a grindy type of recession, kind of a post-dot-com bubble type of recession, but with more inflationary characteristics. And so I think that investors have to be careful about assuming their playbook.

I think we're looking at a high likelihood of at least a mild recession. I think how severe or how long it is will partly depend on policymakers, because this is a very levered, very kind of centrally managed economic environment. So unfortunately, a lot of that comes down to human decisions and how humans respond to the environment. But essentially, if you look at most economic indicators, they show that the economy has been decelerating from its peak in 2021. So purchasing managers indices are rolling over, Conference Board leading indicators are rolling over, you know, copper to gold ratio is rolling over, yield curve inverted, that's a big one, obviously, that has accurately predicted the past eight recessions with no false signals, if you're looking at the 10-year minus three-month curve, all of that points to either a severe economic slowdown or coming near a recession, or potentially causing an outright recession.

I think a reasonable comparison would be that you know, if you ask people at the beginning of 2022, so about a year ago, if you said that the PMI, the Purchasing Managers Index is going to roll over sharply should you buy or sell bonds, most people would say I, I'd want to buy bonds. And historically, those have been pretty correlated. Generally, you want to buy bonds when the PMI is rolling over. And you want to sell bonds, and you want to buy more risky assets when PMI is rolling back up. But of course, this was a decoupling, this was the PMI rolled over. But because you had supply side inflation, you had bonds do terribly. You had the worst year, basically, in modern history, despite the fact that it was a period of economic deceleration, a bad stock market, downward PMIs. And so I think we could have one of those weird environments where we do encounter a recession, but it doesn't necessarily impact some of the areas that we've come to expect that it doesn't normally hit, like some of these more cyclical value oriented sectors, I think could hold up better than people think. And then, once you get past that period, and you go to the next growth cycle, let's say 2024-2025, I think those are going to be pretty attractive areas to keep on your radar.

Erik: Where does that leave us with respect to the stock market because a lot of people have said that the bear market is over. It's, you know, it bottomed wherever it was 35 something on the s&p and that was it. Other people have said, no, no, this is just the warm up. We're only halfway through this bear market. How do you see this, is the final low in?

Lyn: So I doubt it, but I'm thinking less in terms of what the low is going to be and more along the lines of what is the probable range of future returns over a three or five year period. And I don't view those as very positive. Basically, my base case is kind of a long, multi-year period of sideways type of action, especially in inflation-adjusted terms. So I think we could reach lower lows, I think it'd be troubled, it'd be hard for the market to reach all-time highs and keep going from there, I think we're going to be in kind of this ricocheting bounded period for quite a while. And that's a problem when you know, the S&P 500 dividend yield is historically still quite low. And so basically, if you're not getting a lot of capital appreciation, you're not really going anywhere. And that's why I think actually some of these, these dividend-paying type of equities, especially ones that are, you know, have pretty good prospects, good, strong balance sheets that are still growing, I think basically, they can, they can compensate you in that sort of flat and choppy environment. So, you know, they also their actual share prices might be might be flat, might be choppy, might be mildly up. But if they're paying you 4% or 5%, 6%, 7%, 8% per year, during that five-year period, I think the total return could be more interesting.

So I'm not very bullish on the S&P 500 over a five-year view, and I do, I do think we're going to get probably lower lows. But that's a lower conviction part of my case, in the past two years, especially the markets very much been trading on liquidity. And so the Federal Reserve is still withdrawing liquidity. That's been partially offset recently by the fact that the Treasury's general account has not drawn up to the level that they said it would, so that the Treasury general accounts also been drawing down. And that's actually that's positive for liquidity. And with the looming debt ceiling, historically, that that's caused the TGA to draw down almost to zero. So it actually it's a temporary net injection of liquidity into the market. And so at least for the moment, the Fed, the Feds liquidity would drain is being offset by the Treasury. But if you look at the second half of this year, like let's say the debt ceiling gets resolved, and let's say the Fed is still doing quantitative tightening, if the Treasury tries to refill the Treasury general account from that low base, that would suck a lot of liquidity out of the market, which is what the Feds doing as well. And that's, that's an environment where I could see a lower low, especially that coincides with a recession. It coincides with some sort of shock that causes the Fed to pause or to resume some sort of accommodative action. So I don't think the market's out of the woods yet, I don't think the S&P 500 is a very attractive place to be. But I do think that there are kind of surprising pockets of value in certain sectors, like the ones I've covered here.

Erik: Let's move to the commodity side of the house, which I know you follow as I do, there's been a disturbance in the Force Lyn, around the changing from 22 to 23. And it seems like what everybody's doing is selling Ags and buying metals. What do you think is driving that as it related to China reopening?

Lyn: I think a lot of it is likely about China's reopening. Basically, you know that that's accelerated faster than some people thought, basically, in 2022, if anything happens slower than people thought, but now, it seems to be happening quite quickly. And I did an analysis on Taiwan's change of zero COVID policy in 2022 which was essentially that they take they maintained very tight, you know, ways of controlling the virus, not necessarily in the country, but, you know, in and out of the country, basically their tourist arrivals for example, we're near zero, and their case levels were very low. But when they when Omicron came out, and they realized that it's just, it's not tenable to continue to train that anymore, they basically rip the band-aid off and said, Okay, we're not doing zero COVID we're going to start treating this like a seasonal problem and they kind of lived through it. And what you had was a burst of the virus going through a population that was still pretty unexposed. You unfortunately had a spike of deaths and obviously, that caused kind of a near-term disturbance, but then it normalizes over time. And so China's essentially, you know, in December and recently they kind of went through the same exact thing, just on a delayed basis, basically, that they rip the band-aid off, there's reports of quite a significant spike in deaths. But that's it's kind of part of the inevitable process of the country normalizing. And so as that completes, I do think we're going to see more overall Chinese tourism out of the country. So that should be favorable for oil prices. Generally, I also think that you could see a little bit of an uptick in construction, which should be good for copper, I'm more focused currently on energy markets, I'm a little bit more skeptical of copper this year, just due to recession risks, whereas I think energy is probably better positioned overall. But much like energy, I'm very bullish on copper with a five or 10 year view, I think this could be a very good decade for copper, even if it's, I'm kind of skeptical of it for, say a 6 or 12 month period.

Erik: Let's stay on the topic of metals Lyn but move on to uranium, which I know you follow, as I've been following more and more closely. Lately, we've seen a pretty sudden spike up in uranium prices and uranium miners, what's behind it?

Lyn: Well so timing like that, you know, basically, it's been grinding higher and putting in a pretty good base. It obviously had a spike shortly after the Russian invasion, then uranium prices settled down. And I think that the market has essentially kind of found a base and is exploring like another move higher. You know, you've covered well, in your program, kind of the long term story here of uranium that basically if you want to keep the lights on, over the next several years, we're going to have to have just overall kind of higher uranium prices, and more development and refinement of uranium. I also think that as we encounter more and more energy crises, like what we've seen in Europe, I think uranium going to continually be revisited.

Certainly the, you know, emerging market countries are not shy about building more nuclear plants. And you know, I think we could start to see the developed world eventually kind of reassess, and aren't already around the margins has been reassessing his negative view of uranium. I started covering uranium back in, I believe it was October 2020. And that was before

Sprott acquired the uranium participation Corp. So back then, it was very out of favor trade, the fund was trading at like a 20% discount to NAV, so you could buy uranium at like 80 cents on the dollar. And, you know, we've obviously, we've come a long way since then, over the past two and a half years. So the price of uranium is higher, you know, the price of the fund is higher, it's under different management. But a lot of the long term thesis is still there, that basically, there's still not been a resolution to these long term supply and demand dynamics that we can see in front of us.

So, you know, if you look back historically, most commodity bull markets tend to occur in unison, right, at least when you when you zoom out to like, you know, is it a good or a bad decade for commodities? You know, there's always exceptions around the margins, but normally, because they're kind of influenced by the same types of macro forces that result in periods of under investment, under supply, and then over investment, over supply. So I expect that, you know, this decade overall to be good for the majority of commodities, and that includes practically all energy commodities. Including, I do think uranium is very interesting on our on a risk reward basis. And, you know, just holding the underlying commodity directly with Sprott, for example, is an attractive kind of risk reward way to hold it because you don't have to worry about bankruptcy risk of miners. You don't have to worry about, you know what if, what if the price stays flat for a few years and kind of erodes their capital. I think basically, this serves as a pretty good diversifier in our portfolio.

Erik: Well Lyn, I can't thank you enough for a terrific interview. Before I let you go, please tell us a little bit more about what you do at Lyn Alden investment strategy and what our listeners can expect to find when they visit Lynalden.com.

Lyn: Sure, so I put out a variety of public articles in newsletters. So I put out for example, a public newsletter every six weeks, people can check that out. And then I also have a low cost research service that's aimed at both institutional and retail investors that comes out every two weeks and it covers what's happening in macro, as well as covering specific investment opportunities, whether it's sectors or specific equities, because what I generally try to do is that I find that going down to the micro helps circle back and reinforce what's happening in the macro. And so I tried to blend those to some extent.

Erik: Well Lyn, we look forward to getting you back on in a few months for another update. Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com