Alex Gurevich: Jay Powell says, "Effects of tightening not yet felt." Alex says, "No shit, Jay."

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Erik: Joining me now is HonTe Investments fund manager Alex Gurevich. Alex, it's great to get you back on the show on this fed day. We're recording on Wednesday afternoon, just minutes well, maybe an hour after the Fed made their announcement that they hiked 25 basis points as expected. There was also a Fed press briefing and as Jay Powell began speaking, you actually tweeted in reaction to something he said, please tell us about that.

Alex: It's good to be back. It's always fun to talk to Erik. I am puzzled by the Fed's actions. I listened carefully to the press conference, but it doesn't make a lot of sense to me. I am not one to criticize the Fed, but their statement that "there are consequences of our tightenings, and the full consequences of all our tightenings have yet to be felt" is spot on. Due to policy lag, we cannot fully experience the consequences of the tightenings that have occurred over the last year. Now, even without the full effects of those tightenings, we're seeing inflation, every possible measure of inflation, decelerating and coming down. And the biggest input to estimate future inflation is inflation itself. So, as inflation is coming down, it creates less and less momentum for future inflation. Meanwhile, the tightening has yet to filter through the system. I am really stumbled. I don't understand how people could be concerned about inflation at this stage and not deflation. I know I am sounding very forceful. Everything in the markets is a probabilistic statement. So when I say things with such confidence, all I mean is that one outcome is, in my opinion, more likely than the other. Of course, any outcome is possible. But why people right now worry about inflation more than deflation totally eludes me. Maybe you can help me with that a little?

Erik: I sure can, because I'm one of them. And I would very much value your perspective, Alex. So please help me understand what I'm missing. Because here's how I see it. The big, big wave of inflation which was the combination of pandemic supply chain effects, and changing macro backdrop, created this just super spike of inflation that's behind us. I don't think it's coming back. But at the same time, I think it's crazy to think you're going back down to 2%, I think we'd be lucky to get down to 4%. And I think, you know, maybe four and a half or 5% is more likely. And the reasons that I say that is I think the world has changed dramatically. We used to have this globalized world where we got all kinds of cheap stuff from China. And we didn't really have to worry about the fact that it was all coming from other economies where people have much lower standards of living. Now we're moving to a multipolar economy.

multipolar, global geopolitical regime if you will, where maybe China's our enemy, maybe we're not going to have trade relations with China long term. We're talking about reshoring a lot of critical industries. And I can't see how that's possibly cheaper. Meanwhile, something I definitely you know, given what you're saying, I really want to talk to you later about crude oil, because I think that the world is out of spare capacity. I think oil prices are set to move much higher. Not necessarily right this instant, we could still see another wave down. But eventually we're going to realize that we're out of spare capacity, oil prices are an input cost to absolutely everything. So I think that also feeds a secular inflation trend. And I'm not saying we're going to sustain that, you know, 9% or 10%, or whatever the top of this last cycle was. But I think that there are so many reasons to expect long term that the price of everything goes up as we have to start making things and an economy. That is it has a higher standard of living for workers, and things are going to cost more. Meanwhile, the commitment to saving the environment and arresting climate change is extremely strong. And that's contributing to this trend of green inflation where you know, you want to change the way we do everything and focus on clean energy instead of cheap energy. Okay, well, that means you're paying more for it. And energy is an input cost to everything. So these are all the reasons that I see a secular inflation trend and it's not the great big huge one that we just went through that was compounded by pandemic effects, but I don't see how you get back down to 2%.

Alex: Well, I just to be clear, I'm not talking about going down to 2%. I'm going into negative territory. And I feel it's almost unavoidable in the next couple of years. And I can explain why I think this way, which is, having said that, there are I think, several interesting things, especially oil, that I want to touch on in much more depth. Because I think it's one of the most interesting markets right now in the world. I've never been more interested in oil than I am right now and I'll explain why. There are many different forces. The force of globalization, which I call a mid-horizon force, and the force of energy transition. This is a mid-horizon force. I think the longer super secular incredibly deflationary trend continues. But I think we're also heading into extremely strong cyclical deflation right now. And that's why in my mind, there's an argument that trumps all other arguments. The point is that I'm not an economist, so I cannot break down things like separate OER like its high now, but lagging. And this component and services inflation is so strong, and goods inflation is coming off. I look at all this analysis, and I cannot really add anything to it. You can break it down and see what components of deflation that was exported from China. That's no longer being exported from China, but now is getting exported again from China with the opening. There are so many factors. But, what I do understand is how dynamic systems work. A dynamic system is a system that feeds into itself, where the previous condition of the system impacts the future condition of the system and inflation is like that. So the mistake I made in 2021 was underestimating the inflation spike. What was the mistake? It was not just a part of not understanding fully the problem with supply chains, right? Many people didn't. What I think I didn't understand was how much the impact of profound negative real interest rates would actually feed into inflation. And really in retrospect, when real interest rates are minus 9%, people will borrow money like crazy, and money will be created. So money was created like crazy in 2020 and 2021, and it took a long time to work through the session, but it created inflation.

Now somehow, that inflation managed to self-arrest before the Fed even started to seriously come into the picture and stabilize, despite that strong feedback. And that's probably because of the reasons you just mentioned, that the original conditions for the inflation spike had to do with supply chains, and raising rates doesn't help to solve supply chains. But somehow that solved. But now, what we're seeing is falling inflation and tightening policy. And as the money supply shrinks will inevitably cause prices to fall in an environment where it's not accommodated. So as inflation is falling and real rates are rising, they're actually quite positive real rates already, if you look at them, not on a year-over-year basis, but where they are currently. And even if you look at forward-looking real rates, like the real rates on tips, which I personally think will be much higher than currently projected because I think inflation will be much lower, but that's my view. But if you want to look at where they are, they've risen from minus 2% to positive 1% to 1.5% looking several years out. And on a monthly basis, the real rate is extremely high. So what I know is that we're on the path of overall inflation going down, and the Fed is keeping it down by raising rates and conducting tightening. In the middle of this process, the economic data is coming in mixed, and that's actually a fun thing to talk about. The economic data is mixed and not everything is straightforward. For example, the stock market is currently being supported because the Treasury is drawing down ahead of the debt ceiling. So, liquidity has actually not been hurt too much by quantitative tightening, but it's like putting money from one pocket into another pocket. Sooner or later, they'll have to restore the reserves and money supply will start tightening again, once the debt ceiling is passed. What I see is if you suck dollars out of the system, there will not be enough money to pay for things. That actually very neatly takes me into my crude oil thesis if you'd like to go there now.

Erik: Let's do it.

Alex: So the first thing that I want and paradoxically, the result in trade might end up being the opposite of my thesis, and I'll explain why. And I actually laughed, I want to be able to trade against my thesis and I'll explain why. If you told me which way the oil will go, I probably if anything it might go further down. But if you ask me, what is the best trade? I would say you need to be loading up on being long before the oil. So that's the spoiler.

Erik: Long deferred oil meaning long dated futures contracts.

Alex: Yes and I will explain why. I think I don't need to repeat your listeners, because you discuss energy a lot. And I had a bit of a discussion on this on a very recent podcast, I don't know when the podcast with Lyn Alden? It was not very long ago right?

Erik: Just a couple of weeks ago.

Alex: Yeah. So that was very recent when you discussed that. There is really not everyone who knows anything. I'm not an expert on energy, but anyone who knows anything about resources can point out that the energy supply at current prices is not adequate to facilitate global growth. So if you're going to have global growth, you're going to have energy prices go up. It's very unlikely that in the next three years we'll magically find that much more oil and refining capacity for it, and it's unlikely that we'll launch fusion reactors in three years or even put any huge amount of fission reactors online. There is not very likely that there will be a very significant change in the green energy infrastructure or that fossil fuels will go out of style in the three to five year horizon. I think going along a longer horizon, I'm not so sure changes can happen faster than we expect. But inside five years, I'm feeling reasonably in line with the crowd, like I don't think things will change that much. So I'm just going with a very simple common analysis, it looks like if global growth has to be sustained, energy prices have to go up. However, oil trades in dollars and dollars are being sucked out of the system, which cannot be denied, when the Fed conducts quantitative tightening, and when the Fed raises rates, it's not a linear process. For example, there was a little that people talked a lot about the press conference about the easing of financial conditions, I kind of want to laugh at it, because to me that's a tiny blip. This easing of financial conditions is just such a small noise compared to the tremendous tightening of financial conditions that has occurred over the last year. So I don't really think that's such a huge difference. But the overall path is that dollars are getting sucked out of the system, and I think we're already seeing it in behavior that there is not enough money out there in the world to pay for energy. We've seen that under stress, certain people are beginning to choose to have less production rather than to pay energy for this production and pay up for energy. So what does it mean? The corollary is that if there won't be enough dollars to pay for oil, the world won't be able to grow, hence the world will have to go into a global recession. To me, this is an almost unavoidable conclusion. But notice, I say "if there won't be enough dollars to pay for energy," I think it's very likely there will be enough dollars to pay for energy, because a year from now, the rates will be close to zero and the Fed will be thinking about quantitative easing, and two years from now, they'll be discussing negative interest rate policy. That's my view. So dollars will be created to pay for energy.

Erik: Alex, let me take that view to the next step. Because I think it'll help to illustrate your basic point. And I think it's also interesting to explore some extremes here. Let's suppose that something happens geopolitically, that takes half of Russia's oil off the market. Russia exports about 8 million barrels per day. If you take 4 million barrels per day off the market, all of the other oil producers in the world combined don't have anywhere close to enough spare capacity to make up the difference. So you end up with there's less supply, it's not a question of price, there's less supply period. Now what most people assume is oh wow, if that ever happened, prices would be 500 bucks a barrel overnight. I think what you're saying is no, what if that ever happened, we'd have a global depression, and it wouldn't be higher prices, it would be a collapse in economic activity. Is that what you're saying? And if so, let's talk about that scenario. I'm not predicting that half of Russia's oil will come off the market. But hey, we're talking about potentially threats of nuclear escalation in a conflict between the world's biggest superpowers, the United States, Russia and China. Anything's possible we ought to think through the scenarios. So let's imagine that something happens that takes it doesn't even have to be Russia. It could be something happens with Saudi Arabia that takes 4 million barrels off the market. If that happened, there is no alternative source to make up for it. Nobody can turn up the screws that much or even close to it. Does that mean prices go up, prices go down?

Alex: Well, kind of the simple first reaction they probably do go up and because it's just a simple supply-demand law/ Demand will go down and supply will go up. But also that, for example that is not inflationary, I think it is deflationary. This will be a deflationary shock for the world at this point. Because if you take that much of supply off the market, again, correct me if I'm wrong, I don't think the world can grow, economic growth can continue without energy at this moment.

Erik: Oh, I couldn't agree more with that. And I think we do have a setup here. Because we look at you've got a whole bunch of celebrities in the UK are very harshly criticizing and petitioning UK banks to completely cease all investment and lending to support investment in new coal fields, oil fields, natural gas, any kind of energy investment is being decreed as evil. And as long as you have these radical ESG policies that make it a crime to invest in building or sustaining the energy supply that we already have, well, if you don't sustain it, it's going to go down, there's going to be less energy. And I agree with you that that means that we don't have the same kind of economic vitality, that we would have had in an environment of low energy prices and ample energy. And we're not going to get ample energy, no matter what we do at this point. Or I should say, if we want to get ample energy, we'd have to have a complete change of policy and attitude. And then there would be a five year lag time before it would actually get there.

Alex: Yes, sorry, exactly. This is my point. Even if there was a I'm not an expert on politics, even if there was a change in policy, even if there were some kind of radical shifts, either in terms of new technologies, or in terms of changes in policies. I don't think they will have a huge effect inside the five year horizon.

Erik: I couldn't agree more. So we're in a situation right now. And I've said this for almost a year now on MacroVoices that I do not believe it is possible for the global economy to return to pre-pandemic growth trajectory to continue growing like it was before the pandemic, for the simple reason that we don't have enough energy for that to happen. And it doesn't mean oh gosh, energy is going to be more expensive. But we're going to have the growth anyway, it means we're not going to have the growth because there's not enough energy supply to enable that growth period.

Alex: Yes, so I guess a difference in thesis, you're kind of seeing inflationary pressures and an environment of low growth. And what I see is actually deflationary growth collapse. And I want to get back to that in a second. Because the jury's out on that, either of us could be right about this, I imagine. But I want to talk a little bit about oil more in this context, because when you talked earlier, you said that one of your portions of your inflationary thesis is the fact that oil prices, you think, will go up and put pressure on overall inflation, which is true to a certain extent. But I have the following philosophical tenet: when you project something economically, you need to use current market forces. Now, the current market forward for example, oil three years out is in the 60s. It's like $67 or $68, whatever, it's sloshing between $65 and $70. Now, if you imagine oil being there. Let's think through scenarios in which a scenario would make oil be $65 or lower three years from now, and I cannot see any scenario that would cause oil to be there, where it's currently projected by the market, which does not involve at least a recession and a deflationary recession, because any inflationary environment I can imagine would also imply oil prices being much higher. And I don't know if you agree with this or not.

Erik: Hang on a second Alex, because this is something where a lot of people have differing opinions. Some people think that commodity futures markets, when you look at long dated contracts are predicting what the future price is going to be. I'm very much in the other camp myself, which is I don't think it's a prediction of future prices. I think backwardation is actually an indication of the tightness of a market. So actually, the fact that we have very steep backwardation and very low future prices, I see is a bullish sign rather than a bearish sign. Do you see it the other way?

Alex: So first, I will say I'm probably not enough of an expert on the oil market to say whether backwardation is bullish or bearish for me, but I will totally agree with you. I do not view forward prices as adequate predictors of future market prices. Otherwise, I wouldn't be trading the markets, because that's the whole point of trading - you think that the forward is at the wrong place and you make money. So, in fact, I've been talking for a while about how interest rate futures have negative predictive power. That is, forward interest rate futures, typically the higher they are, the lower they end up, and conversely. I've written about this in my first book, The Next Perfect Trade, about the negative predictive power of futures. So that would probably be very much aligned with the view that you are espousing regarding oil futures, as I haven't studied oil futures in the same way. But it sounds like a similar idea in certain ways. Now, what I'm trying to say is that, in the end, my goal is not to be right about economics, but to make money. And what I was trying to say is more like, look at the contract - I can buy a contract at $66-$68 for oil about three years from now. How am I going to be wrong? In which scenario would I be wrong? It has to be considerably down, I don't care if it's $1 or $2 down. So let's talk about the case where oil can end up being at $50-$60 a barrel three years from now. Given our earlier discussion, the only situation I can imagine this happening is the situation that I actually think is likely, but not super likely that the Fed will persist in being tight and we will have a deflationary depression somehow caused by keeping rates really high and sticking there. It could happen, but is it possible? Basically, what I cannot see is a situation in which oil goes much lower 20 years from now and rates are not zero. My question to you is, can you imagine a situation where this is very salient because I know that you follow a lot and I know you have certain views on inflation. Can you outline for me the situation in your mind in which oil is significantly lower than predicted. So we lost money on the oil trade - oil would be at $37, held it for three years, and secondly rates are not zero? Can that be the case three years from now?

Erik: I think it's a question of relative performance on absolute terms, I agree with you, if you talk about buying a three years out contract in the 60s, and then hold it until it expires, are you going to lose money on that trade, I think it's extremely unlikely that you could lose money on that trade, I see that the reason I think it's not quite so simple as to say you can't possibly lose is simply on a relative performance basis. If you look at that trade versus buying the front month contract, if a certain set of bullish factors that I think are likely in the market happened, the guy who buys the front of the curve is going to see much more upside much more quickly. And the return over time is going to be much higher. So I think what you're doing is you're taking a more conservative, more certain trade, that's going to have a lower return for the amount of risk capital that you have to allocate to it over time. So on a relative performance basis, I think that buying closer to the front of the curve gives you more punch, so to speak. But I think your trade is more conservative and more certain to have a positive outcome.

Alex: Well, to me, the reason why I really liked that trade is because it's a matter of style. And as you know, I almost always opt for longer-horizon trades on which I have a higher percentage of wins, as opposed to shorter-horizon trades, which give a lower percentage of wins, but you can kind of take one of those and move to the next trade. This is just a matter of style. To me, I like it because when I buy oil at, say, $80 or $70, I can kind of say, "Okay, over the next few months, I can make 20 or lose 20. And maybe I'll be right 55% of the time." But if I buy it at $65 for three years, I feel like I can possibly double the oil price. But $90 is much more likely than $45. There is little doubt in my mind that $90 is much more likely than $45. So to me, this is a short-term trade. I'm not sure about the long-term trade. It seems more speculative. And as you'll see, I like to be more conservative and just take the trades that are very likely to make money with a relatively conservative downside. But the important point I'm making is that if my view is a deflationary depression is going to happen, the only way I can really lose money is if there is a deflationary depression. Then if I lose money on the oil trade, I'll make money elsewhere with my interest rate bets. But if I'm wrong on interest rate bets, I think it will always be in an environment when I'm making money on oil. So I feel it's a really good trade for portfolio purposes right now to be long oil. It's a way, essentially, to bet on positive carry. You can have a long horizon but have positive carry, and you'll have almost all economic scenarios leading to you making money, and you have good risk symmetry, more upside and downside. And I just don't think you can very often find trades like this on the market.

Erik: Alex, let's keep that theme going of talking about trades that are longer term, low chance of loss. It seems to me that you've been a bullish bond guy for quite a while now. We're at not necessarily the exact top of a hiking cycle from the Fed, but we got to be close to it at this point, you know, they've gone from 75 to 50. That 25 basis point hikes. Maybe there's more hikes coming, maybe there's not but you know, it's not like we're only halfway there. So is this a time when you want to buy bonds because, hey, the top of the hiking cycle has to be the time to buy bonds? And if so, which bonds do you buy? How far out on the curve because the Feds only actually directly controlling the very front of the curve, but you'd like longer term trades? So are you buying the 10-year? Are you buying the two year I mean, what what are you buying is this fed cycle, an appropriate signal to be trading off of in terms of this is a good time to buy bonds?

Alex: Well, first I will say I don't remember ever having an inverted yield curve, and it not being a good time to buy bonds. Okay. So normally, paradoxically the more inverted the yield curve is, the better the time to buy bonds. This occurs because the market prices are going forward much more easily than projected, and that has been my experience. People could argue that my experience belongs to a certain era that is over. But I'm just saying my experience has been that whenever there is any kind of persistent prediction of easing, much more easing than predicted occurs. So probably, as you say, in terms of relative performance, I wouldn't be long two or three years out, because that's when I think rates will hit zero personally. But I think it's a safe trade to be long any portion of the curve, although safe is not a good word. I think that's the right trade. And honestly, in my opinion, the mother of all bond rallies is just beginning to wrap her eyes and starting to wake up.

Erik: If I wanted to put one trade on right now, which is look for the next five years, it seems like this is a good time to be going long fixed income for the next five years. If that's my objective, how far out on the curve, do I go? What maturities Do I look at? And why don't we expand it beyond that to 0kay, is it just in treasuries? What level of risk? Do I want to be exposed to the bond market? Is it corporates? Is it treasuries? Where do I want to be?

Alex: You know within your question lies the answer, I kind of like buying five-year bonds, if that's what you want to do as much as you possibly can.

Erik: Okay, so it's buy and hold to maturity, which I find interesting because usually, when you have a decreasing interest rate environment, it's better off to buy longer maturity and roll it in rather than just hold it till maturity. So you're saying just buy a five year bond and let it mature?

Alex: Well, you can always decide on the amount of duration risk you want to take on in terms of the total duration. You can have a higher notional in five-year bonds or a smaller notional in 10- or 30-year bonds, but I don't mind holding five-year bonds here. This is because we don't know what will happen. For example, I think that rates will go to zero, but that's just my view. If you're asking what to do with my view, I think the Fed will taper off their tightening whenever they do in a few months, they'll start easing, they'll go to zero by the end of 2024, and stay there for a few years. However, I can't see beyond the five-year horizon. Maybe the structural inflationary things that you're talking about will overwhelm the cyclical forces and inflation will come back, leading to hiking again. So it sounds like five years is about the right horizon to buy and hold. And in five years, you'll have no risk once they roll off. So you'll start the new game again.

Erik: Alex, I want to go back to your tweet earlier you said jokingly okay Jay Powell, you ain't kidding that we haven't felt the impact yet of the Feds tightening cycle? What is the impact going to be? How is this going to affect the economy? How long will it take for that to be felt and what's that feeling going to be when we get it?

Alex: Well Erik, I've had to revise my thinking about the subject a little bit in the last few weeks. And I think a lot of us have to revise it, because what occurred was not exactly the playbook that the Fed suggested in 2021-2022. One of the things that was alluded to in this call and questions is that the job market remains very robust. So the playbook is that the Fed raises rates and the first domino to fall is asset prices, check we have done that. The second domino is that economic activity slows down, kind of check the economic data is mixed, it's slowing down but not yet showing a broad catastrophe. Right? So the third domino is supposed to follow unemployment, and the fourth domino is inflation. This is how the playbook goes. Now what we're seeing is that the domino of employment is just refusing to fall. I mean, I don't know what the report is going to be this Friday, but even if it is weak, it could be due to weather. But overall, we just don't see broad weakness in the labor market. No matter how you look at it, there might be some signs, if you look carefully, of some weakening here and there, but there is really not yet broad weakness. Meanwhile, we've seen the other things. Meanwhile, inflation is heading down pretty rapidly. So what's really happening there? And I started to understand that how do you slow down the economy through raising interest rates by putting pain on people with low cash balances. But in 2021-2022, the cash balances for pretty much everybody got pretty high because there was so much cash distributed. So when people have strong balance sheets, raising interest rates is not hurting people very quickly. In fact, they're beginning to earn more interest on their accounts, maybe not so much on the checking accounts, but here and there, people can start earning more interest on their cash balances. So we're not seeing that kind of consumer pain that would eventually lead to a sharp recession and unemployment. We're seeing pain in certain areas, but not in others. And that's why we're not seeing this broad crisis, which is interesting why I think this recession will be much deeper, because the Fed has no incentive to react quickly and fix the crisis, it's more like a slow brewing.

So what I realized is that probably the first domino to fall will be inflation. And then instead of crashing unemployment, what they will do is crush inflation and create a deflationary shock, which will eventually, as real rates go up and real wages go up, cause people to change their behavior, both in terms of hiring, taking out loans, and reducing the size of the balance sheet. So people will have a choice to do so, which will eventually cause economic pain and employment. But that is still a bit away. That is paradoxical in this cycle. Inflation is the first shoe to drop. And that's why I think it's going to be much more pernicious than people think. Because what's first going to happen is that we're going to have something like inflation drifting down, but it takes a long time for inflation to drift down from 9% to zero, so it will be step by step. And all the while, economic numbers are mixed. So there is no reason for the Fed to panic. And employment numbers remain strong, so there's no reason for the Fed not only to panic, but even stop tightening. By the time they realize that we're heading towards a deflationary catastrophe, it will be too late, and there will be no way to stop it. Because when inflation is very negative, you're in a liquidity trap, and it will start hurting economic activity like it did in Japan. I think the situation is probably more similar to actually how we had it in the Great Depression in the 30s. In the sense that I think there was a history there of actually raising rates and slowing down economic activity. And I think that's kind of what is happening right now, what is brewing.

Erik: Let's talk about hard assets and particularly gold. Because if I look at what's going on now, there's been just since interest rates peaked back in early November, there's been this meteoric rise in the price of gold, and it looks on the chart like it's set to continue. But if I'm understanding what you're saying, you know that the reason this I think is happening, is because we've got real interest rates coming back down. But if you're saying inflation is going negative, and you know, we're not going to see deeply negative nominal yields, then you must expect, right, I'm guessing you would expect that this gold rally would reverse at some point is the market realizes that inflation is going to collapse completely?

Alex: No, I don't think so. Because I think again Lyn Alden pointed out that the last podcast that while gold might be driven to some extent to real interest rates, I don't think it's completely beholden to them. I feel that the hard asset rally is for real. And I think that honestly, gold arising from 1700 to 1900 is nothing yet I think we'll see $3,000 gold in this cycle.

Erik: Wow, okay and what's the driver? It's not negative interest rates, obviously, given your other views. So is it geopolitical risk, or what gets us to $3,000?

Alex: Well, when people see that the Fed is forced to reverse and start adding liquidity, I think hard assets like gold, that kind of pressure. It's almost like gold is not operating on the current liquidity but anticipation of future liquidity. Gold is like an oracle, saying there is money on the horizon. It might be a year from now, but the will of money is coming because there will be no choice for the Fed but to start printing money again from year from now. I think that's what gold is telling us. And the moment we see interest rate cuts start and the new conversation about QE starts, and I don't see those things as avoidable at all. I think we're going to have a big run in the cycle. And honestly, gold did pretty well at the end of the tightening cycle of 2007-2008. And that was not the peak of gold. The peak of gold was like in 2011, if I'm correct, right?

Erik: Yeah, I don't remember the exact date, but...

Alex: Something like that, right. So gold did really well during the tightening cycle from 2007 to 2014 and had some volatility, but then it proceeded to make new highs. I think this is the setup. It might do well at the end of the tightening cycle. It might be a little shaken up if we're heading towards a sharp economic collapse, but we might not get that sharp asset collapse because there's no systemic over-leveraging and stress. It's more like a slow eradication of excess cash, which the Fed will have to counter. As the Fed starts countering, gold will be the thing to buy. So I'm honestly inclined to have more confidence in oil and gold right now, because there are more underlying demand factors that support oil. But also, I think all hard assets have pretty good upside from here.

Erik: Now, if I think about how the gold market used to work, you know, 10-15 years ago, the very widely held belief among investors. Well, you know, the gold equities, the mining shares tend to lead the metal higher, because the smartest money knows what's coming, and they're diving into the mining shares before the metal moves higher. If anything, what we've seen is an incredible, just vibrant rally in the price of the metal. And the mining shares are lagging way behind in terms of percentage appreciation, what's going on there?

Alex: Well we can be going into mining analysis. I think there is a certain amount of risk that the mining sector could be hurt somewhat by funding costs, as they do need to make long-term investments, and interest rates are a big portion of that. This is a sector that, as far as I understand has stumbled a bit, due to some wrong decisions made not only by specific gold miners, but by the sector as a whole. However, I think there is still a great opportunity in the sector.

Erik: Alex, were speaking just an hour or two after the Fed released their press statement. We saw a spike up which is what we saw on the last inflation print. And it took us just briefly over the 50% retracement level of the entire move down from the $4,800 highs down to the bottom. We're just about 50% and actually, as we've been speaking, it's come back down below that what's going on here we about to move even higher in stocks or what's driving it?

Alex: Well, I have as I've mentioned before, asset prices are driven a lot by liquidity. And the liquidity situation is currently positive, partially because of technical factors and partially as the market perceives the Fed to be more dovish, which personally, as we discussed, I think is unavoidable. There will be some tailwind to the stock market. But on that account, there will be headwinds in the next few months coming from this liquidity situation's specific technicals reversing, and at the same time, the background of quantitative tightening for as long as it goes, and the background of rising real interest rates will probably put some pressure on earnings and growth. So there are a lot of two-sided scenarios. I think I would probably go outside the US, more likely to Europe, to invest in the stock market, if I had to be long the stock market. My personal stance is somewhat cautious on stock markets. I think the last time we talked, we talked about my indicator, which is interest rate momentum, the change of the 10-year interest rate yield over a two-year horizon. It's still negative, but it's improving pretty rapidly if you look at those charts. So the outlook is improving but that's an outlook for two years from now. Meanwhile, a lot of bottoms can be hit between now and then. So I still feel kind of cautious. That's the stock market. If you really love something, you want to own it, but I wouldn't stretch right now with this rally personally.

Erik: Well Alex, I can't thank you enough for a terrific interview. But before I let you go, please tell us a little bit more about what you do at HonTe Investments. You're a fund manager for our institutional and accredited investor audience who are able to invest in hedge funds, how do they contact you? And also just give us a reminder, your last book was called The Trades of March 2020. What's in the book and what can people expect to learn from reading it?

Alex: Correct. So yes, my website is www.honteinv.com where you can find most of the information about our funds available to the public. If you're qualified and if you pass the legal requirements, you can go inside and get more information. And you can also follow me on Twitter at @agurevich23. On Twitter, I also have links to my website and 20 publications. My most recent book, which came out about a year ago, is called "The Trades of March 2020." It delineates my experience of trading through the events of the early pandemic, like a comparative for medical students - a chance to step into the operating room and see what is really going on with life in real-time chats, what people were saying at that time, actual trading records, what was happening, all the commotion, all the amazing things. I think people might be particularly interested in reading what I wrote at the end of the book about the implications of liquidity and how that played out and see what things I've been wrong or right about in terms of my perception of the post-pandemic world. That would be, I think, very interesting. I'm not at all claiming that you will find me to be right. You might laugh at some of the things I said back then or find some of them interesting, but I think that moment in history was so important and so formative for any trader, it will be very interesting to revisit and think about trading through the crisis.

Erik: Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com