Alex Gurevich: The Real Rates Tsunami

October 12th, 2023

Erik: Joining me now is HonTe Advisors founder, Alex Gurevich. Alex, I'm really looking forward to this one. Before we get started, I just want to salute you, sir, because it is so refreshing to me as seeing so many people in this industry, hiding from their mistakes and not admitting when they screw things up your most recent research note, which most people would only send to their research customers, you've actually shared with the whole world. And it starts in the very first paragraph by saying, hey we got some stuff wrong, and we got some stuff right almost. And then we need to talk about what we got wrong. It is just so refreshing to me to see someone with that much honesty and candor directly addressed their clients and everyone else and acknowledge when some of their calls didn't work out, which always happens in this business. That research note is linked in your research, Roundup email, if you don't have a research roundup email, just go to our homepage at macrovoices.com. Click the red button above Alex's picture that says, looking for the downloads. So what did you get right, what did you get wrong, and what happened with the stuff that went wrong?

Alex: Well first of all, thank you for having me. And thank you for your kind words, it's good to be back. The world is indeed somewhat different from how many of us have imagined it even a little while ago. And this note was written in a spirit of like me contemplating what it is that I have learned over the last couple of years. And in this note, specifically, I focused on understanding the persistent nature of inflation. That is, if I asked you Erik, one question, what would you like to know if I asked you? What do you think the inflation is next month? And I can give you only one piece of information about this of all the economic numbers. Do you know what that would be? I don't mind. I don't mean to put you on the spot. But do you have something coming to the top of your mind?

Erik: It's gotta be the MacroVoices inflation outlook from Patrick's Macro scoreboard. I can't imagine anyone using anything else.

Alex: Okay well, you'll have a great answer. Thank you. Well, so my answer to this question would be, what is the inflation today? The best predictor of inflation next month is the level of inflation this month, right? Like say we don't know anything about the economy? What would clue us in into what kind of inflation we're running? Well, the current inflation, right, and that's probably we're gonna run something close to the current inflation next month, right? So inflation is a very big input into inflation doesn't make sense in the whole mathematical theory of dynamic systems, there are systems in which the current state is input into the future state. And then when that is the case, it creates very often very chaotic and very nonlinear situations because they could be self reinforcing or self arresting. And I think one of the things that I will discuss on the note that I did not quite fully appreciate is the self reinforcing nature of inflation. So what happened is that I totally saw inflation, jumping up probably not as high as it did, because I didn't know how high the supply problems would be. But it was very much in line with what team transitory would have thought. There wasn't post-COVID growth shock and inflation shock. We got that right. Then, next it unwound. And it did unwind in 2022. We had an unwind of growth, we had an wind of that original supply shock. And as I discussed in the note, I don't want to repeat everything word to word, but that had nothing to do with policy, because policy did not and could not have yet affect inflation because policy in 2022, real rates are still negative, they could not possibly be arresting inflation, inflation that arrested because of the unwind of the post COVID shock.

However, the period of 2021 of extremely loose policy created a positive feedback and inflation process. And inflation persisted got higher than we thought I thought persisted a little longer than I thought. And the thought I put forward on that note that if I was wrong this way, it is likely people will be around the other way. And the deflationary shock that we're experiencing, when inflation bull walked away from that, high levels will be also more persistent and sticky. And just as in 2021, it was inflationary shock was reinforced by extremely loose policy. In 2023, the deflationary shock will be reinforced by extremely tight policy. The policy that is we're watching now, not just in terms of rates, having reason I mean everybody like the financial Twitter's full of charts how like the worst bond performance in 18th century or whatever. So rates of reason but also we're seeing quantitative tightening happening and the reversal of treasury cash supply coupled with strong dollar and now the commodities are wobbly and the equity markets are wobbly. So all of those things create tightness. If you want to talk about financial conditions you can call a tightness of financial conditions. I prefer just to talk about policy tightness, and even on the fiscal front to receiving some reversals, but my thesis is just to summarize that, just as we were blindsided by persistence of inflation. Now, people could be blindsided by persistence of deflationary cycle.

Erik: So you still think that the deflationary cycle that you described is still coming? It's just delayed or do you think that the deflation itself is going to be overshadowed by this self reinforcing aspects of inflation that you just described?

Alex: Well, I think that it is coming. I think the recent data, confer in anything tells me that it's going to be much deeper and much more catastrophic than even like what we were looking at a year ago, because we got too much title levels on policy that one could have suggested, and that stickiness will actually in my opinion, will lead to much longer and more severe deflation throw than if we had like a quick inflation, deflation, bullwhip. That stickiness, it will show itself strongly on the other side. The timelines have shifted into the future. But the timelines and what the timelines will do, they might create a lot of uncertainty. And I will talk about the risks to my view, because first of all, I always like to say this thing is like when I pound my table and say this is what's going to happen. This is absolutely unavoidable economic outcome, what I really mean is there a 52% chance of that outcome. And I think we both know that everything is probabilistic. We're just looking for an edge. So we talk with a lot of confidence so we can put positions on.

But every word all we're really talking about the edge and there is a very serious risk to this deflationary outlook. And I'll discuss which ones they are further on. But in my opinion, what is forming is a much slower grinding, but eventually precipitating deflationary bust with various circular factors that can overlay in and work in different directions, depending on timeline, either to reinforce it or to soften it.

Erik: Now, I could interpret that either of a couple of ways. One way would be to say that what you're forecasting specifically, is deep deflation, and that's going to cause the bust if you will. And in that case, if you really think that deflation is what's coming, okay, that's one view. Another way to look at it is to say, you're expecting a recession or depression to occur, which you expect will have deflationary characteristics. That would make me wonder, wait a minute, if it turns out that this inflation is even more self reinforcing than you think? Is there a scenario where you still have the big recession or, you know, super recession or even mild depression that you were previously predicting, but it turns out to be an inflationary recession or depression, because of that self reinforcing phenomenon? Is that a possibility or is that really not jibe with the reasons that you were anticipating deflation in the first place?

Alex: Well personally, I think of the latter as the unlikely scenario, because I think we will have the disagreements I see right now, already deflation, I see inflation trending down on all frontiers. Like right now, I don't think we're anymore in the cycle of self reinforcing inflation. We're in the cycle of self reinforcing disinflation. Now, that could change. And again, we can discuss the reasons why they could change. But the zeitgeist that we are going to see right now is a self reinforcing disinflation. So, to me like self reinforcing, inflation is already a thing of the past. In order to think of inflation being a problem, you have to, in my opinion, you have to think of already a new cycle, inflation is trending down. And as rates are going up, and what really matters is the real rates and the real rates shot up tremendously over the last, like if you talking about nominal rates, shock, but was big, but real rates shock is insane. We went from like negative 9% real rates to positive two and a half percent real rates. That's like 11.5% rise on real rates. And that is, to me, very relevant to the first part of your question, what do you think is the chicken or the egg right? What do you think? I think the question is what is the chicken or the egg, recession or deflation? Is that correct?

Erik: Yes, because I was trying to understand what the driver was so that I could understand whether there was a possibility of a flip to an inflationary version of the same thing. And it sounds like you're saying, No, your prediction is not recession and it might be inflationary or deflationary, your prediction is a continued disinflation. And that's where the recession comes from. So therefore, you don't see a resumption of inflation is part of this outlook.

Alex: Well, obviously and again, I want to talk about why I could be wrong on this because there is a very specific thing that worries me how I can be wrong. But…

Erik: that specific thing wouldn't have to do with a little bit of geopolitical upset in the last several days?

Alex: What I ended see the risks coming from geopolitics and politics broader. But let me first explain what I mean, as you say, by deflation with disinflation, leading the way, there was another in the note, I focused on how we were wrong about self reinforcing nature of inflation. But there is one more thing that I was wrong about, which I did not quite address on the note because it was focused on different things, it is employment. So I think the key employment will be the key to the cycle. Employment, what is driving the current resilience, really tight labour markets, and labour markets, which have structurally changed after COVID potentially. The rise in real wages, tightness of labour, strong performance of consumers, strong retail sales, corporations being resilient, being able to raise their prices in response to the inputs being more costly. Now, all those things if I say what sound like why am I not in the inflation camp. And this is where my soul searching, financial searching led me to understand about employment. Post-COVID, I had this idea that employment, just overall amount of jobs available, will drop. My thought was that people who weren't stimulus checks and were not working, will all want to come back to work when stimulus checks will run out and find the jobs are not there for them. I thought so. And this was not my expert opinion. That was my layperson speculation. And this is a warning shot to all of us not to use your layperson speculations for your market positioning, use your expert opinions.

So my layperson speculation is that, look, there are a lot of redundant jobs out there. During COVID, companies managed to do without a load of workers and keep the economy running. Now they will find out they don't need all those people, that they can run things much more efficiently, and much fewer personnel will be needed. And people will just not find the jobs waiting for them. However, exactly the opposite happened. Jobs are waiting, but people did not come. One could argue the job numbers have become more mixed over the last few months. We're not seeing like a job boom anymore. Like we're getting this like, okay, unemployment, three, headline ticking up and now ticking down and ticking up. However, unemployment is ticking up. JOLTS numbers are ticking up and down. But claims numbers are holding at pretty low levels. They're at lots of mixed indications on employment. However, there is no yet employment past. And that was a good lesson to me. And it goes back to my point about what drove inflation. Those layperson considerations, oh, companies can probably get rid of redundant personnel, have been overridden by simple economic realities, and economic realities was of 2021 was extremely negative real interest rates. When real rates are extremely negative on the funding for the company, it's cheap, they will not make a push to raise productivity and reduce their personnel; rather, they will just try to sell as much stuff as possible. So they will be hiring like crazy because they can raise prices. And because real wages were not were negative in 2021 and 2022. So why not hire more people? There was no pressure on anybody to slim down. And that very basic economic consideration are that negative real rates are not good for productivity.

In fact, that even shows over the last decade, we've had abysmal productivity growth, as far as I understand, correct me if I'm wrong, and in the environment of really low renewal rates. Now the real rates are going up. There are all sorts of reasons why people say that, Oh, no, the labor markets will stay tight. The companies are doing well. The earnings are doing well, they can keep raising prices. But the point is that in America, which could distinguish it from Europe, because in America companies have a certain bloodlust, a certain search for profits, and in the environment of positive real rates, it will become less profitable for companies to employ redundant labor force. And even as labor might have the power to negotiate higher wages, in some sense, it must backfire at some point because companies will just start employing less and less people as real wages are going up and demand higher and higher productivity. Interestingly, we just got a lot of new tools to increase productivity and like with artificial intelligence in general, there are a lot of tools to increase productivity and reduce the labor force. And I think that process has to happen. Now people might ask me why we're not seeing it now. And my answer to this is, we could not be seeing it yet. We could not be seeing it yet because of the timeline, the real rates have not gone positive until the second half of 2022. Everybody was talking about rates going up in 2022. But there were still real rates were still negative; there was no real tight policy in 2022. It was tightening, but it was not tight. Now, only recently, we've had what could be called a tight policy. So we're going to have to wait and see if employment will weaken, which I think it will. And that's my strong prediction.

Erik: Alex, I want to come back to the inflation and deflation prediction because it seems to me that there's something everybody has to agree on, and then there's something that, you know, it's a matter of subjective opinion, and nobody can prove it. My contention is this: Obviously, there's a supply chain-driven spike in inflation that was entirely about the COVID pandemic. The COVID pandemic is over, that is retracing, that is going away, it's never going to come back. I'm sure everybody could agree on that. The question then is, was that wave on the ocean a wave all by itself? Or was that wave actually formed on top of a longer period, perhaps shallower wave, which is a new secular inflation trend? Maybe we're going to come off of whatever it was, 7%, maybe we're going to go back down to 4 or 5%. But we're not going back down to 2%. Because there's a new secular inflation. That's one view, happens to be my view. And there's another one that says no, no, everything we're seeing here is just the unwind of that supply chain pandemic-driven thing. And we are going back to 2%, maybe even well below 2% or negative. How could you possibly know that answer? And what can we do to figure out which one of those views is right?

Alex: Honestly, we probably can't figure out right now who is going to be right. The future will have to show, and arguments could be made on both sides. Now, as I just talked before about employment, I outlay the case why I think employment will weaken, and I think employment will be the key because we will not have a real broad slowdown in the economy and severe deflation until employment weakens. There is no reason why unemployment is strong, real wages go up, consumers stay strong. Just as I said before, everything will keep chugging along. I believe that we do have a strong downturn, unemployment will go back to the normal deflationary environment. And here is both the forecast and the rest of my forecast. Imagine the world with no governments and no wars, just kind of a world in which just markets rule. I think we will be heading to an insanely deflationary world, like deflation on the scope that never happened in the history of humanity. We're about to have energy costs fall by a factor of 1000. Fusion is just on the horizon, it's no longer like people kept talking about fusion, being always the energy, which will be 30 years from now. Well, that's no longer the case, fusion is almost there. I think fusion will be commercially viable in six, seven years, as the improvements in fission reactors, the improvements in various forms of energy, they're pretty strong. Energy will always be in shortage, there will be no one sweeping solution that energy is no longer a problem. But there will be deflation in the energy market. In education, that's my view. Let's just stick with my view.

Alex: AI will basically eliminate all intellectual jobs, it will not necessarily eliminate manual jobs, because AI cannot dig your garden. Our experience shows that making a robot to dig a garden is much harder than making a robot that will write legal papers for you or make a program that will write legal papers for you or solve math problems for you or write poetry for you. So every intellectual professional will be displaced within one decade, essentially. So we're looking for tremendous changes, potentially. However, those changes may not come on the timeline of free-willing, free markets. There is a lot of politics and geopolitics is going on in the world. There is a lot of politics, and I'm not judging those politics. I'm just saying that the political environment could be leading to secular inflation, and that could be the risk to my outlook. Exactly. Labor unions are beginning to get stronger and negotiate. Maybe like I talked earlier about the companies reducing labor force, reducing employment. Maybe it'll be politically unviable for them. There could be various minimum wage regulations. There could be various basic income that could replace employment and be another inflationary bump. There are so many different things that can happen in the world. On top of it, global instability just keeps pinching various supply lines here and there. So there is a lot of stuff that is happening, which cannot be parsed by my economic forecasting.

Erik: Alex, let's touch on the Israel Gaza Strip, geopolitical escalation. We're recording this on. At the point that we're recording, I think the information is still not completely clear as to how many Americans were involved in addition to Israelis. How many Americans may have been killed or captured or taken hostage is not clear. It was reported that there may have been several dozen I don't know about you but as we're recording, I haven't seen any firm numbers. I'm sure by the time our listeners hear that, it will have been resolved. But give me your perspective on what is the significance of this eruption of violence between Israel and Hamas and how significant could it be?

Alex: Well first of all, obviously the events of this weekend are truly terrible. And I just want to acknowledge that for many of us, including myself that have emotional significance, without whatever going into politics, I just want to say this, this is obviously really shocking development of events. However, going back to my job and like trying to evaluate the geopolitical impacts, or or the impacts of geopolitics on the financial markets, for now, at this moment, it is hard for me to justify a lot of moves on asset prices based on those geopolitical events. For example, there is a jump in oil prices, I don't see immediate impact on oil production and oil supply in the world. Now, there are many ways you can game it. And there, I'm truly a lay person, I can game it, well maybe Iran will end up being more sanctions isolated, or vice versa, maybe not. Maybe the Israeli-Saudi deal would be delayed, but maybe vice versa in sympathy, it will be accelerated, there could be so many different ways to game it. For example, one of the first market reactions to that was a jump in US Treasury prices. And as you know, I'm long duration I'm betting on treasuries to go up. But how in the world is it supposed to help treasuries in the long run, wars are almost always incrementally inflationary. If the U.S. gets dragged into another war, that's probably inflationary for the U.S. both have a negative for budget situation, probably more supply, and all this stuff, right. So I don't really know what all of this means yet, honestly. With oil however, again, we could see at this bump in oil. But in the big picture, we had a conversation about oil you and I, at the beginning of the year, and I talked about how I like to be long different oil instead of betting on specific front contracts. And this was interesting, because if you were to bet on the front oil, there are so many times this year that you have gone right or wrong. So if you did it right, you could have made a lot of money on upside moves on oil, even like recent months one, then you could have maybe like avoided the recent rapid selloff in oil and there is a bump again. But this is just the recent history. There was several of those during the year.

However, the deferred contracts, is my preferred way to express it. And they were basically continuing to grind up trading in much lower range. And my thesis on this and it was my understanding, we talked about this, which is not so different. I think we're not so different than the opinion. Yes, in the long run, there will be various energy transitions and new sources of energy, but not tomorrow. I said earlier that I think fusion energy will be commercially viable pretty soon. And realistically, it won't be because of government regulations. And realistically, all the transitions and build up on their infrastructures would take time. Realistically, we're not prospecting for new fossil fuels, probably enough to meet any kind of growth world environment. So I think that in any environment, except if we hit a global depression, the oil which keeps offers an excellent discount. Because if you go up to three years, oil could get cheaper 15 or 20% depending on what day you ask and that's just really a giveaway because why would forward oil two or three years from now be cheaper? Oil is not gonna go out of style in two or three years, I think by anyone's estimates, and the supply might be tightening. So this is purely market structure that creates a backwardation. And I think it's a great opportunity to take advantage of this market structure and continue. And watch this grind continue, I think energy prices will go up before they go down. And this is not like I generally I don't like those kinds of market predictions. Oh, I think this thing is going up. But on the short because of this or that on the short run, I think it'll pull back. Usually I just go with long term prediction. But there is a very strong structural situation going on with fossil fuels which cannot be denied. And pretty much I don't see anybody telling me otherwise. There is no controversy about this. I think in any scenario except deflationary depression, risk-rewards are skewed towards higher oil prices on a two three year horizon. That's my opinion, I don't know, I assume that you agree with it? If you don't let me know.

Erik: Well, my view on that one is a little bit different in the way I see this is, if we have continued demand for oil that continues around the level that it's at, and it continues to test the limits of supply, we're looking at a continued increase in oil prices, as you say, and a very significant risk that if we start to really test supply, or if we see geopolitical escalation, the lack of elasticity could cause just a minor supply disruption to spike oil prices dramatically higher. So I think we probably agree on all of those things. The caveat that I have to throw in, though, is that the reason all those things can happen is as soon as you start to test the limits of supply, now that we don't have spare capacity in the system, the way we used to, there's just not room to really test the supply. But if we have the depression or significant recession that you're predicting, look, supply and demand works the same way as it always used to. If there is less demand for oil than the current supply, the price is gonna go down, at least for a while. I contend that you won't be able to recover from that recession without getting into an oil crisis. But the oil crisis I predict could be delayed by a couple of years if there's a deep recession.

Alex: Well, yes, I agree with that part. And this is exactly how my portfolio strategy works. If there is a deep depression, I assume into well, and I guess I could be wrong on that. But my assumption is that in that environment, interest rates will go dramatically down, and I will make money on the interest rate side, and then I'll just wait to make money on the oil side. If it's the other way around. And there is no immediate depression, I'll make money first on the oil side and then wait to make money on the bond side. That's kind of the key o how I construct my portfolio approach. I am not worried about deflationary depression scenario, because in which case or in which oil prices fall because to me that environment is an environment of zero interest rates. And there is a lot money to be made as in many other things. So whatever I make on oil, whatever I lose on oil will become pennies compared to what I can make on other things. Conversely, I can make significant amount of money on oil, because if you're talking about oil going not to just a not to from 90 to 100 by going to 150 or 200, there is a lot to be made on oil. This is not pennies anymore. Where I think I differ given this current environment, I don't see oil prices as a risk to my long-medium term deflationary outlook, I think oil can create over to some headline inflation.

And as we discussed earlier, inflation going up for any reason could cause more inflation because it feeds into other prices. And then this price will get fed to consumers and consumers demand higher wages and it keeps spinning. However, I don't really think that that we're an environment when sharp oil shock will feed into default inflationary spiral. The reason is that oil trades on dollars like it or not like it and dollar supply in the world is getting scarce. Dollar is rising, dollar interest rates are higher. There is all sorts of liquidity draining operations like quantitative tightening going on. In that environment when energy becomes more expensive and people have to pay in in dollars which are also more expensive. It will just become contractionary for the world. So in some sense, yes, it might temporarily increase headline inflation but I think it will accelerate eventually deflationary depression. So if you're running a factory, which requires a lot of energy and the energy prices are going up, everything is great and you have plenty of cash floating around you borrow more cash and pay higher price for energy. If there is a shortage of cash, you shut down your factory, or just change your operations to have dramatically low energy consumption. So I think a supply shock, while demand is temporarily inelastic, it will become very quickly become elastic in this environment. So that is my vision. So my vision is that, yes, if you're thinking of just pricing, headline inflation for the few months, oil prices important. If you're thinking of long term likelihood of deflationary depression, or just in general, like kind of deflationary environment losses to the job market, I don't think a spike in oil, oil supply shock over the next two years will supply disruption, if you wish, will negate my story. If anything, it might even reinforce it.

Erik: Let's talk about the long-term forecast for oil. I think the things that we're in sync on is if you look in the short term, if we dive into a deep recession, supply and demand is still supply and demand. The price of oil goes down because we're no longer testing the limits of supply the way we are now, right at this moment. People are scared to death that there might not be enough oil. We're almost at tank bottoms in Cushing, Oklahoma, to settle the next contract. If that stops being a fear, the price is going to go down. But I think we both agree that there's lots of reasons to expect over the next five years for the price of oil to continue to rise, and I think rise quite substantially. The place where I also agree with you but disagree with your outlook for oil prices longer term, let's say 10 years out, to come back down, for there to be energy deflation, you think that's going to happen because of fusion? I find it fascinating that you think that because I've looked at it, and I don't come to that conclusion. I think the same thing that energy prices will come down radically starting in about 10 years. But it'll be because of small modular nuclear reactors built on robotic assembly lines by me and a company that I want to launch. So whether it's fusion or the way I want to do it, I'm not sure. But I think we do agree on that outcome. Is that right? And what are your thoughts about what could disrupt that outlook or change it?

Alex: Well, I think that the biggest headwind to this transition, whoever wins, fusion, fission, or some other renewable energy sources, their headwind is almost always regulatory and political. Because there is a lot of like, "Oh, we don't like nuclear energy" going on in the world. And there is a lot of sometimes it's concerns founded, sometimes, honestly, I think there are unfounded. For when we talk about this decade timeline, that's actually a pretty short timeline. It is possible it might take more than a decade to do the transition. My point about fusion is that technologically, it might be possible to transition to fusion in a few years. From a regulatory perspective, probably not going to happen. What I think is not taken into account by general projections is how much AI will accelerate that process, finding fusion and fission solutions, and all designing all those things in the next few years. So technologically, a lot of things will become possible, but I don't think they will actually come to fruition as quickly as we would like.

Erik: Tell me a little bit more about what you see the role of AI being in defining nuclear fusion insofar as do you see generative AI evolving to the point where you can think up a better strategy than we can think up? Or is it more of we humans think up the strategy and say, "Hey, I want to come up with a set of blueprints for me that I can build against?" Based on these specifications conceived by the human. Are we talking about what should be done is going to be determined by AI or just the speed of implementation, once you know what a human-determined goal is, that the AI figures out all the details for you?

Alex: Okay, so this is a long and interesting discussion. I think what you're saying is true. So my imagination is that one of the problems with stuff like any kind of nuclear systems like fusion or fission is stability. There are a lot of different factors, and you need to maintain control. So it's a control problem with potential chaotic dynamics involved. And it's a very difficult control problem. And I feel that like new levels of AI can solve control problems much better than humans. I don't know how to go into that without going into a lot of math. But the idea is like, when you see a juggler juggling several objects, they don't make every throw perfectly. They have to do a lot of micro corrections. And if anything goes off, the whole pattern dissolves and like all the balls will be down. So when you have a nuclear reactor, you don't want that to happen, right? So solving those safety control problems, I think, will be made much easier by the introduction of AI in the next few years.

Erik: Alex, final question, I do want to come back to your long-duration outlook, which you've had for several years. You've been right for most of that time. Recently, you know, as Lacy Hunt has said to me a few times, "Boy, when you're long duration in the markets moving against you, you can look awfully embarrassed for a bit before you get proven right again." Are you committed to the long-duration trade?

Alex: Yes, I'm still committed to the long-duration trade as that was the thrust of my note. And since I wrote this note, it's one of those things that the trade got even better because bonds sold off quite a bit between August and early October. So now we're at even better levels. It is interesting; I was listening to your podcast with Jesse Felder. And I was mentioned in this fourth podcast because he was talking to Alex Gurevich. I was listening to that, and he would say, "No, you should be buying bonds." But he expressed concerns over the supply. And interestingly, supply did factor in over the last couple of months. When you have more sellers than buyers, things go down. It's that simple. With treasury bonds, it's not about the growth outlook or inflation outlook. I don't believe in any of this. Recently, what changed is there was more sellers and buyers, more supply and overwhelmed demand, and prices went down, and the yields correspondingly went higher. However, where I differ, I try not to forecast those short-term supply swings. Rather, I look at what it does to the long-term outlook. And the recent rise in rates, rise in real rates, an increase in the supply of treasuries, sucks other money out of the system, and also drives the dollar higher up to me. This all reinforces my policy outlook, which is that eventually, policy rates will have to go down and go down significantly, most likely to zero. The more of this supply comes in right now, the more interest rates go higher now, the more likely they'll lower to be later.

Erik: Luke Gromen told us last week that he sees what's going on here as the bursting of the global sovereign bond bubble. And he's saying it's just getting started. You know, we've spent the last 30 years in a bond bull market. He thinks that it's topped and it's starting to blow off. Is there, you know, what would that mean? And at what point would your commitment to the long-duration trade have to be abandoned?

Alex: I think probably what would make me question my thesis, as I mentioned before, is political shifts. Right now, I see no sign of anything like that. Definitely, the 40-year bond bull market is over. It was followed by a recent three-year bear market. And I think this bear market will soon be over, and we'll start a new bull market. This is not going to be the same bull market that we've had from the 80s. It's going to be a new bull market, which I think will be much more rapid and violent than the previous bull market. That's my central opinion. I don't think there is any bursting of a bubble. I don't think there is any crash of credibility of developed market bonds happening. I don't see any of that, as proven, for example, by the fact that the dollar is getting stronger. So the more bonds sell off, like you said, over my bonds, but then they just clear at lower prices, but it just drives capital account surplus there in that foreign investors are putting more money into dollars as they get higher yields, and the dollar is getting higher. I don't see any kind of credibility issue going on here.

Erik: Alex, I can't thank you enough for a terrific interview. But before I let you go, I want to talk a little bit about what you do at Hunter Advisors. You run a hedge fund, which means your investments are available only to institutional and accredited investors. For people who do meet those qualification criteria, how do they contact you to get a hold of a Tear Sheet and a pitch book?

Alex: So accredited investors can find me, and qualified purchasers can find us on the website, honteinv.com. If you are qualified, you could register on the website and get information, but there is a lot of publicly available information. Those notes, including the note we discussed now, will be available on that website, and any other research notes I've made public and any other information that is made public can be found on that website. You can also find me on Twitter at @AGurevich23, which is my first initial, my last name, and the number 23.

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