MACRO Voices
with hosts Erik Townsend and Patrick Ceresna

Alex Gurevich: Real Rates, Precious Metals, Currencies and more

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Erik: Joining me now is Alex Gurevich, founder and CIO at HonTe Investments. Alex 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 Alex's picture that says "looking for the downloads." Alex, last time we had you on the show, you expressed a more disinflationary to deflationary view somewhat out of consensus with a few of our other guests. Any change in that view? And what is your outlook in terms of inflation versus deflation looking forward?

Alex: Well, Erik, first, thank you for having me back. It's always good to have an ongoing discussion and kind of compare the views. Last time, several months ago, we've had a little discussion about what seemed transitory and got wrong. And I was trying to analyze me being on team transitory, in which ways some things were correct, but which were fundamental errors, and don't want to repeat that. But I'm just saying it's kind of good to have those every several months check-ins and see what happened, what are we wrong about? Not just, I-told-you-so's, but also what were on the ballot and how do we take in new information. I will say, compare it to a few months ago, there were probably more challenges than confirmations to my view that I've had, however, not a huge change. And I will explain why the change is not huge. But I will, as a brief summary, I will say that the time is getting closer to the point that my view will be seriously challenged. So, the timelines have to be moved a little further. And if that certain timelines will not be met, in I would say, half a year to a year, I will be under pressure to keep saying, yes, it's all going according to my big problem. That's how I would summarize it. So the core of my view, behind deflationary view was policy lag. And the fact that everything that happens with rates works with a huge lag. And the core of my position in the end of 2023, was that it is too early to say until second half of 2024. And that's when that was the timeline I pointed out back then, it's not the timeline I'm creating now, that in second half of 2024, it will be too hard to say what effect real rates could even have had yet. So what I see in the narrative so far, I see the disinflationary narrative to me is clear. I think the high inflation period is over. I see no new inflation spiral or anything like this. I know that some people disagree with me, but I see no signs of that. I don't want to get worked up over inflation ticking down 0.1% as people were in 2023, or being like 0.05%, higher than projected for a couple of months. That does not mean there is no inflationary crisis going. But there is no deflationary bust going on.

Also, as I wrote in my quarterly report to investors, it's currently hard to say that the economy is weak. You could squint to look for signs of economic weakness. But overall, the numbers are pretty solid this quarter. What I feel is there is a strong discrepancy. I'm just doing right now an overview to show how complex the landscape is. I feel majority of top-down numbers are fairly robust. You're seeing whatever like GDP type numbers, or anything looking from the employment numbers, though, like any aggregate numbers, look good. There are some bottom-up numbers that certain analysts point out certain areas of weakness, like restaurant occupancy, or amount of delinquencies, amount of bankruptcies, or even late in people showing the new rounds of layoffs. It's not so fine filtering into top-down numbers. And since I'm not a bottom-up person, I really cannot speak to that. All I'm saying is that I'm seeing some serious disagreements between analysts. I am not the person who crunches original economic numbers. I'm a consumer of that research. And what I'm seeing is opposing pieces of research on what is the level of economic health.

Now, inflation and rates and stock market and economic health, all of those things are not the same thing. They're related, but they're not the same thing. For example, we can see deflation and really low interest rates and a robust stock market. We can see a recession and stock market making new highs, on contrary, we can see really weak stock market and really strong and hard running economy. All of those situations, which I think people had difficulty imagining educated goal are possible in the new regimes and regimes of fiscal dominance and the regime of really aggressively reacting Fed. That's what I think blindsided a lot of people in 2020. The fact that while the economy was still weak, stock markets started to run up. Because the influx of cash was just so huge that the buying power was there. It was less challenging for me back then, because I was already thinking about those things a lot by, before the year 2020. Things like why does stock market not go down during a recession? Or does inflation have to go hard during growth period, which people are trained to use, interlinked? I actually just tended to be concurrent, but a lot of concurrency is broken now. So we're navigating this complicated landscape.

Now, my fundamental thesis is that, the most important input for future inflation is current inflation, that inflation leads to more inflation, less inflation leads to less inflation, because there is a certain zone in which not much spiraling is happening. And right now, I think we're at a moment in that zone of inflation. But fundamentally, if you said, inflation was so high during COVID bump, that it created this post COVID wave, then we'll have the bull-whip of coming off post COVID when inflation came down, and that led to patch of low inflation. Now it has bull-whipped, the more like normal post COVID environment. And now the question is, will interest rates do the work to bring inflation down? Now, in my thesis, is that higher real rates are deflationary. Because higher real rates force increasing productivity, higher real rates, cause people to be careful with their balance sheet, cause to draw down inventories, cause to be really careful with their money, and that's the opposite of inflation. And furthermore, currently the yield on, say, something like 2030 year inflation index bonds, which by the way, I think among the best assets out there, right now, it's close to 2.5%. Now with that yield, how can it be even wrong for people to put bonds in their retirement account? And inflation plus 2.5%, you're guaranteed for 30 or 40 years to make positive real yield? That's to reach a proposition, historically. I don't think those things are trading anywhere at the right level, I think they're catastrophically cheap. They're like, default level cheap, the long date, this type of assets. I think real rates on Treasury bonds should shoot and will converge to zero in the long run, there will be periods of negative real rates and positive real rates on Treasury bonds, but risk-free bonds make sense for me that they ran roughly at inflation. So which means that the real yield on TIPS should be close to zero. And right now, they're way undervalued, especially in the long end. So that's kind of the big sin. Now, if you're okay with this, I'm going to move to some charts to see how I'm thinking about that.

Erik: Sure, I see you've got real rates on page three.

Alex: This chart is not really a market chart, it doesn't prove anything. It's just an illustration. The chart that I'm showing there, and it's showing the average real rates. So the green line shows the average SOFR. So that was the policy rate over the period of two years. It's a rolling two-year average. And why am I talking about two years, like those who have seen my previous presentations, I really believe in two-year cycles, and everything fits really well in two-year cycles. Now, when I take an average rate over the last two years, I'm actually being generous. I'm not saying that things act with two-year lag, I am saying that everything over the last two years met us, forward things are today. And then the blue line is the two-year average of monthly CPI. Now you could say why CPI, why not core CPI, why not PCE? Fundamentally, the picture will be very similar. They will be, of course, squiggle will be less extreme or more extreme. I'm just choosing CPI. So I would be less kind of accused of doctoring my evidence, like the thing that is the headline, the thing that goes into the pricing of inflation, bonds, and so on. But you could choose your own thing too. When you do actual trading and actual analysis, be more precise with it, choose your own things. I'm just giving guidelines here. But you see the bottom line that the actual average, or real rates, over the last two years. Now, what you're seeing is that average was very negative over the last four years, somewhere like in 2021, or late 2020, and that average became very negative by 2022. Now, one of the interesting things in 2022 is, we had what looked like extreme tightening of financial conditions. We had sell-offs and very bad sell-off on bonds, stronger dollar and pretty serious, not like deepest but legitimate grinding bear market on stocks for a few months. And there was a lot of inflation predictions. I was agnostic on inflation, my view was on deflation, which also didn't pan out right away. But there was a wave of disinflation in 2023, it was not as deep or as severe as I had expected, at least that far. However, what was wrong? Why were people wrong who were predicting inflation?

So, my theory is, look at this, throw this value of average real rates. So in 2022, we will have been facing the conditions when the average real rates have been severely negative, over average, over the course of two years, that provides tremendous stimulus to the economy. And it is very inflationary because real rates, negative real rates, make people do things like accumulate inventories, expanding their balance sheets, creating money, which creates more money in the system, and thus continues to devalue money. In 2022, we had peak inflation. And incidentally, we had a big impact of community of negative real rates, that impact started to diminish in 2023, as inflation started to go down, and interest rates continue to go up. However, that way of negative real rates in the past two years, were still very heavy in 2023. And as you see, the blue line and the green line, were just about to cross, there's nothing magical about real rates being zero. But I'm just pointing out that we're approaching the point when the negative, when the real rates will have been roughly zero on average, over the last two years, we're not in some kind of restrictive federal rate Bonanza right now, yet. Now, as we keep going, and as we will continue to keep going, this thing will start being more and more accumulative, restrictive impact. And that's why I believe that we don't know yet, what will be the effects of this, I think they will probably, the effects will probably start biting at some point at employment. And that will at some point, diminish wage pressure or possibly, there will be weaker stock market. And I'll go to the next slides through discussion of stock markets. And all I want to emphasize is that I feel that like anybody, who says the economy has withstood the rise in interest rates responsibly and prematurely. But to say that, we're falling off the cliff, recession is inevitable next month, everything is falling apart, is also to me a little premature and overly bold. So right now, I advertise being agnostic. But it is possible that the fiscal impulse will overcome everything else, the fiscal impulse and various structural problems will overcome real rates. However, my experience shows that usually, it's the rates that overcome everything else. Because if the US government will keep expanding the deficit, while keeping real rates high, all it will do is just drive the dollar higher. If you keep issuing treasury bonds, putting more and more treasury bonds out there, eventually, foreigners will have to buy them and to buy them, they will have to buy dollars. And that will just drive capital account surplus. So we're going to need to make this capital account surplus happen, we're going to have to run high and high current account deficit, which can be achieved through higher and higher dollar. So, it's almost like unstoppable trap if you keep running a fiscal deficit, but not accommodated. And if you keep running stimulative fiscal policy, and tight monetary policy, you're going to have your currency keep running higher. And that is something to consider. For example, what's going to happen if I'm wrong, and rates will stay higher for a prolonged period of time? So, what I would like to do is to one, my thinking is, is it really true? Why do I have this two-year lag of the cycles? How does it affect stock market? Why do rates dominate so much?

I'm going to show you the next slide, just briefly, it's a slide of the relationship between lagged interest rate momentum and foreign stock momentum. I've done the chart many times, including on the show, Erik, I don't know if you remember it. But what I've noticed is, that one of the best predictors of how stock market does over the next two years is to look how has the bond market done over the past two years. So the orange line is how the stock market will do two years from now and notice, like the shaded area, we still don't know how it will do. We'll have to go back to 2022 to know how the stock market will have done, but bond on bond market will look back and say what is the difference between 10-year yield today and 10-year yield two years ago, and if it's gone up, that's bad for stock market. If it's gone down, it's good for stock market. As you see the fit, at least since the 90s, has been extremely good. I will admit this cherry-pick, the fit was not so good, before we were in a different environment, and one could argue the environment changed. That's a long discussion. One of the things you can notice, that recently, there was a crossover between those things and like recently, kind of the blue line projected, immediate crash, and in March, instead, stock market was going up. Now, there are some very weird conditions here, because when you look at the blue line, we are going back, actually four years because we're looking how stock market was predicted two years ago, which meant 2020. To look back two years to 2020, which means that we're looking at March 2020. And, of course, between March 2020 and March 2022, interest rates have gone up tremendously, which would predict bad performance of stock market from 2022 to 2024, which was not at all the case. Now, as you see, the chart does conform really well. But it also doesn't conform perfectly and there are like pretty big gaps and lags. It's like, on the big picture, it's really good. But on a small picture, all sorts of things don't happen. But already a few months ago, we realized that that will have been a problem because it was such a, particularly, just syncretic moment. This two-year lag is not meant to be, there is no law of physics saying in two years, you have to go back, specifically two years, is just the best horizon we kind of empirically could find, right? And but we realized that there is a difference. And that's why even in the past, people challenge that chart of ours. And now we kind of found more reasons to think of the challenge with this chart is that what we really should be looking at is real rates, not just nominal rates, because in the past, when inflation was stable, it is sufficient to look at nominal rates to really understand interest rate impact. It was that simple. If interest rates are higher, that means we'll have tighter monetary policy, if inflation is relatively stable. But if we change the equation and say, well, what if inflation is not really that stable, then we come to think, well, maybe it is really not nominal rates, but the real rate matter, in terms of defining whether interest rates are a headwind or a tailwind to the economy. So when we started to chart it in real rates, and let's go into the next slide, the last slide of mine show, you can see the same chart, but shown in real rates. As you see the recent beginning of wobbliness in the stock market over the last few weeks, was actually kind of almost concurrent with a corresponding move in real rates, because the real rates didn't really come down in March 2020. They were very high in March 2020, because of high deflationary impact, they only started to really started to go seriously negative only later. And that's why that negative momentum actually is not starting from late in 2020.

Correspondingly, now we should see the weakness in stock market. INFOR took this two-year lag as a complete like law of physics, which I'm very skeptical of doing so. So when I present this chart, I want to have this general warning to the investors, be very careful of people who say, oh, I had this chart, it doesn't work anymore. Let me show you the other chart, that chart will work. Because it's very easy to game it. You cannot just, it's too easy to back feet. You can always like, that's what I've seen by the way, over the last two years, invariably, like people had so many arguments for it’s going high and so many arguments for it’s going lower, and so many charts proving one thing or another. And something kind of in between, I would say happened so far. Some people who argue that rates will go to 8%, so far have not been correct. People who predicted recession or rates rapidly going back to zero by 2024 obviously, were wrong. But there were so many charts confirming either of those, so be careful of people substituting charts. So, I am substituting chart here. I'm not doing it post factum, we already knew that we're probably going to need to look at this other chart. But take it like for what it's worth with a grain of salt. So what I'm seeing is a good fit. But also the interesting thing you see is that people look at the orange line and the blue line over the last couple of years. So right before the shaded area as you see orange line is below the blue line. What’s interesting is it tells you that stock market, in fact, underperformed. So many people were talking about stock market performing great, why stock market is going up so much, why stock market is defying gravity. But this came, actually as a very recent realization for me, looking at this chart, given how stimulative the real rates have been and I'm looking just at real rates, not even looking at the fiscal policy.

Just that there's one thing, how stimulative real rates have been. Stock market should have done even better. It was generally until very recently, until last like couple of months, it's been really underperforming. And that's a very paradoxical statement that comes under surprise, because by everyone else like, well, not everyone else, but there is the view that stock market has performed, surprised everybody with strong performance, has been prevalent. But I'm actually looking at it saying you know what, stock market should have been surprised that that's, it's weak performance, given that you're running negative 8% real rates. So for a while, and now this has ratified as you see, even though the real rates, as real rates are beginning to actually show their increase, right? And the blue line is beginning to go down and accelerating down. And the orange line keeps going up. Now, stock market is in overperformance zone, but it is beginning to be slightly dragged down by the blue line, I believe we can very easily see outperformance of stock market, it doesn't have to go all the way down to blue line, which would indicate like 40% correction from the level lows of 2022. But I believe that it will start being more likely than not, will start dragging, dragging down, at least to some extent. And we will not see really good performance of stock market over the next year or two. So that's my base case.

Erik: Alex, let's go back to page three in the slide deck, showing average real interest rates during the course of calendar year 2023, we saw an increase from -6% to 0%. So that's a 600 basis point increase in real interest rates. Now, historically, the strongest driver of precious metals has been real interest rates. So you would expect with a 600 basis point increase from -6% to 0%, that that would crash precious metals prices, gold would be, you know, 800 bucks an ounce or something. It's the opposite. We've seen gold go through the roof. And at the same time, gold's correlation to the US dollar has broken down from its usual inverse correlation. What's going on with real rates and the dollar and gold? Maybe you can break down all three of those things and the interrelationships between them, and why the correlation seemed to have changed during the course of 2023?

Alex: Okay, yeah, that's a very legitimate question. And I have to say, I've been asking questions myself around that gold could be viewed as a currency. And obviously, it has correlation, when dollar goes up, chances are all other assets, whether it's Euro, gold will go down in terms of dollar and converse, right? We don't know that specifically. But the likelihood is, if all we know is the dollar gets stronger, likely all other currencies will go weaker. And that could apply to gold as well. Now, gold is also not like other currencies, and let me talk about gold and precious metals first, and then I'll go to overall currency situation, if you don't mind. I'll start with gold. One of the things that I've observed over time, while there's been this very strong token, very strong perception that gold should go down if real rates go high and converse, that actually has not necessarily been, historically, the case. By the way, that's not even historically, the case with the dollar itself. What are some of the mistakes I made, for example, in a cycle of 2021, that was comparing to the cycle of 2024, 2004, 2007. In that cycle, real rates kept climbing up as Fed kept raising steadily, rates all the way through, like 1% to 5.25%, and steady, not as high pace, but it's been a process. And during all this time, dollar has been weak, and gold has been very strong. So that in itself did not derail. Conversely, in 2001 and 2002, when the interest rates were very low, dollar was weak, precious metals with other precious metals like palladium were like basically given away for free. Basically, people were coming to you on the street and saying they want to hold some palladium, you could have gotten palladium for $200 an ounce, which, in my opinion, back then was free. I took as much as I could for JPMorgan, but there was a limit to how much I could take so it wasn't so obvious, and we can talk about reasons about this. All I want to say that it's not so obvious, that overall, dollar and gold correlate just directly, so strongly to real rates. But also, it is important to understand that gold is not a currency and there are a lot of things going on with gold. Gold is an asset which has buyers and sellers, if there's more buyers than sellers, it's going to go up. I don't know who was the recent buyer of gold, it could have been central banks. It could have been some people panicked about geopolitical crisis. But I think all of the things have been said. But one thing that have not been very much in public discussion, just this morning, I was actually going over some numbers from number crunchers for gold mining companies. And you know what, their profits are not that great. Like this recent wave of inflation actually took a bite out of their margins, because the cost of producing gold has, of mining gold have gone up dramatically. And I don't know if people are noticing this fact that the mining costs have gone up dramatically.

Erik: Well, I've certainly noticed that the mining shares are not going up dramatically as the precious metal goes up.

Alex: Yeah, but why? I mean, I tried to dig into this. And I noticed that actually mining costs have various labor issues and other political problems around mining, mining costs have gone up quite a bit. I think they're creating a floor for mining new precious metals. So I don't know if it's a factor, but I'm just putting it out there. I don't know if it's a decisive factor, I just want to add it to, this has nothing to do with like, when sovereign currency goes up and down, there is no such thing as mining costs. But when you have gold and silver, there is actually, it's a real expense to get them above ground. And paradoxically, margins are not that high, even with gold at $2000, I will go even $2400, they're going to go higher. I think mining stocks might have space to run up, but they are not, not as high as you would think. Let's put it like this.

Erik: So essentially, you're making the tail-wags-the-dog argument that everybody thinks gold prices are extremely high right now. But you're making the opposite argument that when you consider what it will take to incentivize building more gold mines, in order to increase production capacity, no, actually, even at these gold prices, it's not enough to incentivize building a whole bunch of more gold mines. Because as you say, the cost of mining has gone up so much that even at these gold prices, those gold mining shares are really not that profitable.

Alex: Yes, I'm putting out that that could be at least partially the case. Now, one could also make an argument, you know what, it almost does not matter because nobody needs above ground gold anyway, it's all about the dynamics, who wants to buy it, who wants to sell it. I think it's a two-way thing. New supply matters, stock matters and flow matters. So the flow probably is not going to be so great for gold in terms of new supply, but the stock is high and if central banks decide to sell, it's going to go down. If central banks decide to buy, it's going to go up. For me, the interesting thing about the gold and silver and platinum trades are that I'm just looking at historical charts, and they look pretty good on historical charts, or like multi decade charts. Silver has been much higher, Platinum has been much higher, gold has not been higher. But gold miners have been much higher. Like everything looks like, next cycle, we can have high, as much, nothing really stops us from $60 Silver, $3,000 platinum, $3,000 Gold, which basically tells you that I see much more upside on platinum and silver than gold. But I don't see any reasons why any of those things cannot happen, which creates just a good risk reward. But unlike I think other players, I cannot claim to mathematically solve the equation, what the price for any of those things should be. And I don't have like a single view, this is what they're going to do. All I'm saying is that, even at these levels, even after the recent, slightly more expensive levels, there is still upside, looks pretty good relative to downside probabilistically. And I think those things are pretty hard to understand what's going on in those metals. And you just have to look at long term charts and see where they can go and be patient enough. And then they usually go where they should go sooner or later. That's my experience with both precious metals and digital assets, any hard assets.

Erik: Alex, let's come back to currencies. What were you going to say there?

Alex: Well, I think with currencies, situation is somewhat different. I mean, again, on the surface of that, without being devil's advocate, looking at the top-down data, we’re seeing real divergence, US data is just really strong and US rates are beginning to diverge on the high side from European rates, from Chinese rates and many other countries and it created a strong tailwind for the dollar. And I feel like there is no particular way to get out of this tailwind without Fed dramatically changing policy. And it seems to me that when I'm right or when I'm wrong, the policy will not be changed prematurely. There are two possibilities. Either I'm wrong and inflation will stay higher, go higher, in which case I think the Fed is well prepared for that. And they will not lower rates prematurely, even if possible. Some people argue, they might even start raising rates again. But I think that's what they will do. They will not be obstinate in the face of rising inflation and say that we will have to cut rates anyway. And by the way, I don't believe that election cycle will affect them in any way. If anything, it'll make them more hawkish. So they don't appear to be swayed by election cycle, that's shorthanded my view of that. However, if I'm right, and in fact, we'll start trending towards deflation. In the next few months, they probably will be behind the curve because as those things, especially if it's a recessionary deflation, those things develop very fast and Fed is never ahead of that, they're always behind that way. So in either case, not really called for particularly stimulative policy, I think the hope was stimulative policy, any time of 2024 or 2025, as close to zero, because even if they cut rates, their policy will not be stimulative. Because, they will cut rates because they already have to, kind of a little behind the curve, which means that dollar will remain attractive. And I think that the carry arguments, and I just don't know how they're going to get out of all the situation, dollar will remain attractive. And they're continuing to unwind the balance sheets with more treasuries out there. The treasuries have high yields, people will be buying them and buying dollar with them. And that would hedge the dollar, potentially.

So I don't know how they're planning to deal with capital, how you could stop capital account surplus and stronger and stronger currency. And I think in this way, for example, China, continuing to be interesting, I think there are a lot of people posting about imminent catastrophic devaluation of RMB. I don't see catastrophic devaluation. Because China is totally in control of its currency, they have ample reserves, and current account surplus and MCF reserves. Now, ample reserves, they don't need to, like you cannot run them out of dollars. I think that's a ridiculous idea. But they seem to be comfortable with a sliding depreciation, which is pretty nice, if you have positive carry and sliding appreciation. I think the most radical thing that can happen to China at some point, they will embrace something like Abenomics and just opt for faster depreciation. But that's not a central scenario for immediate future. So far, we'll just have to watch the grind. But look, I think other currencies grind, like, for example, look at Swiss franc. It has been very strong up to a few months ago, they eventually clearly diverged the policy, they already cut rates, and they seem like they might do more rate cuts. I think they're really strong. Franc has been taking a bite for Swiss and they don't like it anymore. And I think they're on the path of depreciating the currency. So I think if you stay with rates high, you'll begin to see interesting currency opportunities, especially if you imagine that US will not cut rates this year, I think long dollar versus other currencies is a good trade.

Erik: Alex, I want to go back to something you said earlier in the interview, which is that, although you've got a certain outlook, you said another 6 months, 12 months, if things don't change, you're going to have to revisit that view. Now, I know from reading your book, that you're a very disciplined investor, you're used to thinking about how to hedge trades, so that if it turns out that you are wrong about something, you're covered. So what can you tell our listeners about either hedging strategies or how you approach this question of what if it turns out that your outlook, in terms of disinflation to deflation turns out not to be correct?

Alex: Yes, I like to think about this, that you have to be very clear about what your trade is. So you can very clearly see afterwards if I was right or wrong. And there are two types of trades, for example, let's think about buying a stock. You can buy a stock at $100 and say, I will take profits at $150 and cut losses at $80. Whenever that happens, so you hold it till one of those things happen. And then you will know whether you're right or wrong. You're not right when the stock is $110, you're not wrong if stock is at $96. You're wrong when it's at $80 and you're right is at $150, right? Or you can say I will buy the stock and hold it for two years. And then if it's up, then I'm going to sell it in two years. Good, bad or ugly. So if it was up, I'm right, I was right. If I sold that, I'm wrong. I think there is a lot of this drift that happens when people like something, it goes up and it goes down and somebody tells them they're wrong. And they say like, yeah, no, but it was 10% out back then. Right? It's like a little bit like with oil. We've had this conversation, was it right or wrong? The whole front oil. There are so many times you could have said that you are right. And so many times you could have said you were wrong over the last year. But in the end, you just have to define what are your trades or what are your profits and stop losses. So that's the first way to think about this. So sometimes, you can think in terms of just, okay, this is the trade. This is my capital I'm committing, this is the risk I'm taking. And if I'm wrong, I'll just lose certain amount of money and reconsider. Now, I like to build a portfolio of trades, which are all positive expectations, but cover various kinds of sectors of economic outcome. And sometimes it does not work. Like for example, in ‘21 and ’22, I didn't have a very balanced portfolio, and I've had a lot of headwind in 2023, It actually kind of worked for me. Because, yes, interest rates did not go down in 2023. But I made money on other trades, and it ended up being okay, I ended up navigating that. But that's the aspiration, is to being able to navigate any environment. And the thing is, if I think it almost intellectually demands me, if I say, oh, I think rates should be lower. Then you could ask your question, well, what if at that height, what will break down, what kind of problems could you see. So one argument you can make, or if rates are going to stay really high or go up, and stock market has to go down, so maybe you want to buy a put in the stock market. And if you think rates are going to stay high up, to protect yourself against rates staying high, and inflation going higher, or maybe you can say the dollar is going to go higher, so you buy dollar. I was fortunate that there are some structure trades, which are very particular in interest rate curve, like having to do with municipal bonds, extensions, and stuff like this, which worked really well in high real rate environments. So there were some opportunities to put in some trades that probably wouldn't have lost much money if rates are lower, but do really well when rates are higher, if you can find those. My advice is to other managers, exercise your creativity in finding what it is that you think is not priced. If you imagine rates staying here or being higher, I already gave you a couple examples, I don't think China will be able to maintain the forts on their currency, in the sense that, for you to lose money on being long dollar China, because the carry is positive now dollar China, China will have to appreciate, I think it's hard for you to appreciate within an environment of such economic divergence and higher rates in the US. So that's one thing to look at. And then the other, stock market is another example, I think it's hard for stock market to keep going up if rates will continue to stay high, or as some people think, go higher.

Erik: Finally, I want to ask you about energy markets, which I know, just like myself, you think about quite a bit. How do you see the balance of supply and demand working out and what are going to be the primary factors in coming years?

Alex: Here, when I talk about this, I just want to premise with the fact that I probably will go a little bit on a layperson speculation. So, I want to, for a second, take off my macro trader hat and put on my science fiction writer hat. Because, what's happening in the world has some very dramatic changes, changes which only recently lay in the realm of science fiction. But I think by now, to deny what is happening in the area of computation, artificial intelligence, honestly, I no longer take seriously people who deny singularity and deny the fact that there is an AI revolution going on. The amount of data that needs to be stored, and out of computation that needs to be performed is not rising exponentially. It's rising along completely different curves. Curves, which are not unimaginable in the real physical universe. So clearly, the demand will soon not be met. The energy demand, right now, still, computation is some small portion of the world energy demand. I think it will totally overwhelm everything else within our lifetimes, if we’re lucky, possibly within a decade or two decades. And the changes of the world we’ll see is so different. So that puts like a lot of pressures on the energy because we're in the process of energy transition. But whether even if we have a slowdown in the global economy, it might temporarily slow down energy demand. But to see this coming off entirely, it's hard to imagine. So hence, I kind of still want to be somewhat on fossil fuels. But going forward, neither fossil fuels, no wind power, no solar power, none of it will solve. Now you and I have been arguing about fusion of fission. Honestly, I think fission will be not enough, no matter how much we'll have. I don't know fusion will be enough eventually. Again, putting on my science fiction hat, there will be a time when the demand of computation will rise so much that nothing will be enough and that will be the constraining factor for how we can develop artificial intelligence. So I think this is just for me that is like the framing of the weather. I'm looking right now at shifts in the energy market. And one part there is no immediate crisis. We still have enough fuel to go. And another part, some dramatic shift going on forward.

Erik: While I agree with you, Alex, and I think it's going to be very interesting to see how this plays out and also very, very difficult to predict, because people like you and I can look at this problem and say, okay, clearly, we've got to get off of fossil fuels, particularly coal, which is the worst polluter, and we've got to move from the age of oil and fossil fuels into the age of nuclear. But even a country like Germany, which is famous for having smart people that understand engineering and science has shut down perfectly good nuclear plants in order to build more brand new coal fired power plants. So this has become so much more political than it's based on logic and reason. And that, to me, means it's going to be impossible to predict what happens next. Any thoughts there?

Alex: Almost every view I've expressed or keep expressing, the risk is political. Because political currents are so hard to predict. My only kind of, again, even further science fiction hat, we're creating artificial intelligence, artificial intelligence is very smart. Soon, it will be transcendent in our terms, and then needs to eat. Imagine a bunch of transcendent beings which are very hungry and what they eat is energy. I almost feel like artificial intelligence will find a way to game the whole political, and they will seem to get itself the energy it needs. Well,

Erik: Alex, I can't thank you enough for a terrific interview. But before I let you go, please tell our listeners a little bit more about what you do at HonTe Investors and for our institutional and accredited investor audience, how they can contact you for a Tear Sheet or information on your fund.

Alex: So the best way to contact me is to go to the website of my company, honteinv.com. And you'll see some general information, a lot of publicly available appearances and if you're a qualified purchaser, you can fill out the questionnaire and get funding information. People also can follow me on X at @agurevich23.

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