



MACRO Voices

with hosts Erik Townsend and Patrick Ceresna

Tian Yang: Tariffs Will Continue Until Moral Improve

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Erik: Joining me now is [Variant Perception](#) CEO, Tian Yang. As many of you already know, Variant Perception is well known for their excellent graphs and charts, so you're definitely not going to want to miss the [slide deck](#) that accompanies this week's interview. Registered users will find the download link in your Research Roundup email. If you don't have a Research Roundup email, it means you're not yet registered at macrovoices.com. Just go to our home page, macrovoices.com, click the red button above Tian's picture that says, [looking for the downloads](#). Tian, it's great to get you back on the show. It's been quite a while. Let's start with the big picture before we dive into the slide deck. Obviously, I think the biggest issue in macro right now is President Trump, whether you love him or whether you hate him, nobody can argue that he's got unorthodox policy approaches, and clearly, he's taking some very bold policy moves. I suppose I could argue that that means LEIs are more important than ever, because they tell us when a new trend, perhaps as a result of the changing administration is upon us, or you could argue the other side of that, which is if LEIs depend on long data series, obviously when everything has changed, maybe that invalidates part of it. How should we think about LEIs in an environment when there's been such a profound change in in the political regime?

Tian: Well, hi Erik, glad to be back. And certainly, I think that's a great question. In a way, it's kind of simultaneously true, right? You have this duality, where, on the one hand, I think we do really need to make sure we have an anchor using lead indicators of growth, inflation, policy regimes of liquidity, just to ensure we have a base case. But at the same time, clearly, we have to appreciate which of the data points that are actually capturing what's going on and which of the data points can't react to the headlines and the news, the tariffs and so forth. So, I think it's a bit of both. I mean, the way we're approaching is to realize that clearly, even things like tariff and sentiment, they can clearly affect survey data, a lot of these implicit kind of sentiment things are going to be where it shows up first in the data. But I think this year, you do kind of need to have, quote, unquote, like a view, especially on kind of the bigger political trends and picture, and then use that to contextualize where leading indicators are. So, I think overall for us, it's kind of like when we, you know, the kind of most overarching model we have which kind of combines growth, inflation policy and liquidity is still being pretty balanced in terms of macro risk, right? So, it does see like a mix of upside downside risk. So, in general, it's still been somewhat more benchmark allocation, but we're kind of overlaying that a little bit with essentially two longer term frameworks we have, where we think that this Trump administration is one, a repeat of kind of the Reagan playbook, in particular, using trade policy to encourage reshoring, encourage manufacturing to come back to the US. You know, very much analogous to Reagan, getting the Japanese to come build car factories in the US in the 80s. And ultimately, obviously, a lot of

these policies leading to an end point that's kind of Plaza Accord. And obviously, there's a lot of talk about Mar-a-Lago accord right now as well. So, you kind of have this one overlay over the top that clearly is a pretty big shift. I think we even rolled out, put a note out, talking about tariffs will continue until morale improves. That's kind of the overlay over the top of that. So essentially, it's kind of base case, very neutral, but have a slightly more stagflationary tilt over the top.

And then the second big, kind of strategic overlay, or difference is that, to us, it looks like Monroe. The Monroe Doctrine is very much back in terms of the geopolitics and the US direction. So, our understanding of that is essentially more localized spheres of influence, and kind of like a more of a splitting of the areas of influence globally. So again, this is kind of America for the Americas, where, from Panama to Canada to Greenland. It's like, this is the US is local sphere of influence, so the US needs to dominate that. And every other country needs to just stay out of the way. But equally, in return, Asia is kind of China's dominant sphere of influence. So, it looks like this administration cares a little bit less on exactly what happens in Taiwan. So China gets to dominate that probably a little bit more, but in return, China needs to lay off. So that's kind of two bigger, currently, kind of two bigger overlays we're putting it over the top elite indicators and kind of tying that together to come up with investment themes.

Erik: Okay, with that in mind, let's dive into the slide deck. Starting on page 1, [Knowns and Unknowns](#). What do we know? What don't we know?

Tian: Yeah, well, I say that's in a way, a little bit of description of what I said earlier. What we know is what's in the data, and the unknown, unknown right now is probably around this policy, because I think it does feel almost exhausting in terms of the headlines and the shifts. So, we're trying to tease out these underlying themes, but in terms of what we do know right now, you know, when we look at the data, the lead indicators, broadly speaking, is saying trend growth in the US is slightly below. Yes, we did have that very big GDPNow, deterioration, but when we break out the kind of core underlying consumer investment components, it's kind of, it's still okay. Obviously, it's deteriorating, but those series have tended to be volatile. But there's a lot of corroborating indicators we have, like the Fed weekly, our LEIs, most things, you know, we were interpreting around maybe 2% growth in the model, but given, like the tariff concerns, it might be slightly below. So that's kind of like the main anchor we have right now on growth. Whereas, you have, I think right now, there's a lot more unambiguous in terms of inflation indicators, broadly actually starting to go up a bit more. So, it's kind of this picture of trend to slightly below trend, real growth, but sticky inflation above target. So that's kind of the overarching anchor right now.

Erik: Tian, page 2 is just a table of contents, so I'm going to skip ahead to page 3. Let's talk about LEIs and what they're telling us.

Tian: Yeah, so like I say that the key thing I would highlight here is that, yes, US economic surprises have turned negative, and that's obviously fueling a lot of the market narratives around the growth scare or recession scare. Certainly, I think the market does want to trade that for a bit, but overall, there hasn't been that big a shift in the data. A lot of the higher frequency

stuff, other than the Atlanta Fed, GDPNow, is actually still holding up okay, whether it's the Fed weekly, we track things like OpenTable, GSA, travel data, a lot of these other kind of consumer stuff. And broadly, it's a little bit of slowing, but not yet, kind of the collapse that would normally indicate a recession. So, it feels kind of just a slowdown for now, obviously, one to watch. But you know, if we anchor around that, then this is more of a mini scare, mini recession scare than actually a real recession for now.

Erik: Tian, let's move on to page 4.

Tian: Essentially, right now, I think, as I mentioned clearly, the market is very focused on downside growth first. You know, some very prominent strategies are coming out, calling for recessions imminently as well. So given a lot of uncertainties, one of the exercises we did was almost to a kind of post-mortem. So, it's like, okay, imagine in three months, in six months we are in recession. What are the potential paths that would have looked like that? We might have seen the data already today. And so, we've kind of laid out potentially four different mechanisms or paths that deserve a closer look right now, just to be able to react in case the economy does kind of decelerate faster than we anticipate. The first one is kind of something that's probably the most obvious, which is fiscal risks. So, with DOGE and all these things potentially kicking in, the concern would be that the fiscal impulse starts becoming a drag that it's very hard to sustain previously large levels of fiscal deficits. And this will be even going back to, I think, a year ago, when we spoke about this fiscal Sisyphus idea, like the fiscal policy that's been there, it's like Sisyphus trying to roll the rock, roll the boulder up the hill, right? And fiscal has been just propping up the US economy for a long time, propping up profits. So that's kind of a risk. I think it remains to be seen exactly how much DOGE gets done, but we also know that the administration wants to extend tax cuts for now. It's not super clear how much tariffs. I think it's the base case, is probably they're not going to be able to raise a lot of revenue by the tariffs. So, if you extend tax cuts, and if you follow through on the other campaign promises, a lot of like no tax on chips and a lot of promise, basically, tax cuts, right? Then it's not that clear we're going to get that bigger negative fiscal impulse. So, I think that's one to be seen. But certainly, I think they'll just get more done than probably before the inauguration, before people expected. So that's certainly one source of downside risk. So, one to be seen again for now, the impulse data looks okay but clearly on a forward looking basis, it looks something they're taking very, very seriously. So that's kind of the first main downside risk, and we're mainly tracking the fiscal impulse data to keep an eye on it right now. It's okay.

The second risk is that all this tariff talk essentially nips the manufacturing recovery in the bud, just kind of before it's really gotten chance to take root, and that looks increasingly like a real, like one of the main concerns. So just even, like two months ago, that the manufacturing data was unambiguously, kind of recovering and recovering very strongly. There was a surge of optimism after the election, in a lot of the kind of regional manufacturing survey data as well. And basically, since the tariffs started, you've seen a pretty big shift where future expectations, new orders, a lot of these things have flipped, but a lot of the price components of the surveys have surged higher. So, it's kind of this more stagflationary tilt. And I think there's a concern that we're getting the kind of 2018 version of Trump. So essentially, where tariffs are driving market

volatility, but overall, the market is kind of going nowhere with very high vol, rather than the kind of 2017 version of Trump that was just mostly passing policies with Congress that the market likes, and so that increasingly looks more like the case you're getting the 2018 version. First, there's obviously this focus on trade and tariffs, and that is going to hit manufacturing. So that's, again, something that started to shift, and we just need to keep an eye on if that deteriorates further. The third potential risk that if we were to end up in recession, again, is that's not in the data right now, but if, what's the third path that we may have seen, then it's likely to do with housing, rates, rates higher, sentiment in housing turning lower, eventually that leads to a reduction in construction payrolls. So again, that's historically been a valid channel. We'll have to see how it evolves. But again, for now, I think that is potentially a risk, but not in the data yet, but as we can see, given some of the shifts on completions versus starts, there is a concern that potentially home building activity could slow down, in which case, then that does lead to weaker growth historically. So that's kind of the third risk. And then the fourth risk is that, potentially, with the sticky inflation, you're going to end up with this kind of higher for, or high for longer, right? Obviously, the bar to hike for the Fed is very, very high, but just decided they're not going to be able to cut that much. So, rates kind of stay high for longer, and that eventually does feed through into, kind of the private credit, into a lot of small business and borrowers. I think we've done a lot of work before on this area around how being a lot of things in this cycle where potential credit stress has been masked, these things like liability management exercises. There's a lot of these interventions to prevent bankruptcies and to get a lot of the kind of distressed credit exchanged or converted as well. So, there's basically various things going on. And obviously credit spreads are super tight relative to all the other assets that's kind of reacting a little bit in pricing and growth for it. So that would be kind of the fourth thing where small business and private credit to ultimately succumb to, kind of the high for longer. So that's kind of the recap of where the downside risks are that we need to watch for, and if they deteriorate further, then we would obviously need to get more defensive from our relatively neutral, slightly stagflation light outlook right now. Basically DOGE, fiscal risks, manufacturing rebound being cut short by tariffs, US housing and private credit, those are kind of the four things you could see at the margins starting to kind of deteriorate.

Erik: Tian, let's move on to one of your proprietary indicators. That's the Variant Perception Macro Risk Indicator on page 5.

Tian: Yeah. So, this is kind of the all-seeing or dancing, kind of everything in there, to create kind of one number around macro risk and use that as a guidance. So essentially, how this works is, we have, obviously, individual lead indicators for growth, inflation, for liquidity and policy and all those models, they have elements of, kind of causal discovery in there where they're trying to adapt to the environment, understand what inputs are, but ultimately, the way we combine that into a single number, we've then trained a lot of different decision trees to understand how those different aspects of macro interact. And then we are explicitly training everything on downside volatility for a kind of standard multi asset portfolio, call it 60/40. And so essentially, what this is doing is trying to convert all of the macro data into a single number for the risk of downside volatility picking up in markets. So as this number goes higher, it's kind of saying the probability of downside vol is rising, and vice versa. So ultimately, this is kind of

bounded between 0 to 100, and right now, we're kind of at 50 something, so it's still kind of broadly in a neutral zone in general. But one of the interesting shifts has been that, in 2024, there was a lot of different headwinds, but the overwhelming positive factor last year was basic policy support. And this is obviously the thing that's gone away right now, but it's kind of being replaced by actual improvement in growth.

So that's why it's kind of pretty key to see from here. If all the kind of uncertainty and news on tariff does start to tag the growth component, and that will be the risk. So yeah, that's why it's kind of really helpful right now, at least overall, to have this anchor. Certainly, this isn't a leveled, long, extremely bullish environment. But equally, this isn't, on our models at least, it's certainly not imminent recession, it's kind of this mix. And so, for us, it means like to try and outperform. This is more of an environment where, I think, instead of taking big asset class risks, deviating equities, equities to bonds, we're kind of sticking to benchmark. But then within the benchmarks, trying to tell a little bit more. So, within fixed income, we're tilting a lot more towards TIPS. And then within equities, I think the model sector tilts have been like overweight energy and underweight consumer discretionaries, which has actually been helping them drive out performance so far. So that's kind of the overall interpretation. And at the same time, what we've also been noticing is that our fundamental indicators for volatility have been rising fairly persistently. That's kind of the bottom left chart there. So, we generally just had a mindset of whenever the VIX kind of normalized a little bit, we're looking at ways to add long volatility exposure. So, the simplest are generally looking at adding kind of VIX core spreads, when the VIX is kind of settling, just to constantly keep that exposure. And obviously for the more kind of global macro PMs, as I think this is a year where a lot of opportunities to do a lot of more exotic trades, right? You know, things we talked about before, things like knocking in Dollar-Peso puts and things like that, where you'll get a lot of headline risk, where potentially a lot of these currencies sell off hard, but ultimately, there's some kind of relief. And you know, structural, these knocking options this year could actually start to pay off pretty well, give you kind of that level of return that you need to justify kind of taking risk. So that's how I would describe up this overall. So again, base case, what's in the model right now is fairly neutral. So, if we get too extreme either side will be looking to kind of fade it for now. But clearly this is a long vol environment. Even before the policy uncertainty, independent of Trump, the lead indicators for volatility was already rising anyway. So that's the current broad brush kind of outlook.

Erik: Let's move on to your US equities outlook on page 6.

Tian: The main concern is that expectations are pretty lofty. Our lead indicator for earnings growth is running at about 6% year on year. So, the fact that consensus is still higher, again, this suggests as a bit of a gap overall, and a bit of a concern overall for the market. So that suggests a little bit downside risks. But most importantly, I think, as I mentioned, it's important to probably look at selection rather than purely trying to take directional risk on the asset class to generate kind of outperformance this year. So, a lot of our intrinsic value, fair value models, energy does stand out as being the kind of sector we want to own. And as I mentioned, consumer discretion is currently the biggest underweight. So that's still the tilt right now. And then again, within equities, we've leaned a lot more heavily into large caps over small caps still.

So, I think there was a lot of excitement that small caps might start to outperform after Trump got elected, but I think on a lot of our fair value models, they were still pretty fully valued and pretty expensive. And in relative terms, US large caps still look better. And so that's still very much the case. And generally, high for longer is not good for small caps, which are more exposed to kind of credit, like the cost of credit, and just interest rates in general as well. So broadly, I would say, in aggregate, for equities, little bit of downside risk is important to kind of maintain the risk-free part of your allocation. Whether it's 60/40, it's important to add some of those long vol hedges when you can. But really, I think this is a year about, within equities, doing the selection, and so that to us means long energy, short discretionaries for now, and then, just like underweight small caps relative to large caps.

Erik: Tell me a little bit more about the call on energy, and what the chart on the top right means. Seems to me like on one hand, clearly, energy prices are at a two-year low. Right now, seems like a good time to be buying. The flip side of that, of course, is President Trump claims that his policies are just getting started, and they're going to take energy prices much lower. So, if we believe that's actually going to happen, maybe it's a little early. I don't know. How should we interpret this, and what does the chart take into account?

Tian: That's a fantastic question. We have a few approaches. So, essentially, we're starting with whatever the consensus earnings estimates are for next three years. What we then do is use our capital cycle model, so these long-term proxies of kind of competitive dynamics, future profit potential, we use our capital cycle models to tilt these consensus earnings estimates or put down and then essentially discount them back to get a fair value, like a discounted cash for a fair value. The difference is, for our discount rate that we apply to these sectors, we'll incorporate elements of positioning and crowding. So if a name is not very crowded, we'll demand a lower equity risk premium. And equally, if a sector has a reasonable quality or not a bad quality metrics, we will also require a lower active risk premium. So, this model is already capturing a lot of the necessary data. It's capturing the consensus earnings estimates, and then we're tilting that using capital cycle crowding quality scores, and then, in turn, generating a fair value. So when we look at the equities in particular, it will suggest to us that there's a lot of these things already priced in, like the earnings estimates, already embedding some of these concerns around low oil prices and around the policy shifts. But in aggregate, potentially, maybe it could be made up for in volumes, right? Maybe it could be made up for in deregulation and different aspects that can help profitability. And to your point, obviously the model tends to shift month to month. But once WTI oil gets down to the 60s, starts trading 60 handle and gets lower, there is also an aspect of, maybe they'll do something, about accelerating, refilling the SPR and some of these things are not necessarily top of mind, that can help put a flaw under prices, and essentially help companies make money through volume. So, the way we're thinking about that, and why we structure it like that, is, ultimately, I guess, investing is about, one, is trying to anticipate what is going to happen, and then to trying to figure out if that's already discounted. And so, I guess you could almost interpret this as kind of saying, there's basically a bit of a divergence that, yes, there's legitimate concerns whereas around oil prices, and, you know, we certainly think there's a lot of pressure points. We even think there's some risk of more members leaving OPEC this year, as things keep up, so that there's certainly some goal. But a

lot of these energy equities are priced pretty reasonably, and so to us, it feels like there's upside.

Erik: Let's move on to your global equities outlook on page 7.

Tian: I think that the biggest one to highlight is, I think we're actually starting, we've taken profit in a lot of the China longs, and we're actually flipping back into India. So, the biggest story of the past six months has been China outperforming and India really underperforming. I think we caught the China waves really, really well. You know, realizing September that was a game changer in China, went long, traded it up to profit, stayed long. Beginning of the year, went China tech, and really only it's like a couple of days or a week ago where we thought, you know, enough, it's probably enough on China. So ultimately, we think China remains a trading environment rather than an investing kind of environment. So, we've been relying a lot more heavily, a lot about trading signals and looking at what base case returns are, and just not getting too greedy. So whenever we're kind of getting 60%, 70% of the expected value of a lot of these buy signals on China, we're just get getting out at those levels. So that's kind of what's going on. And ultimately, we want to be buying dips in Chinese equities still, but it feels like very much just kind of trading, rather than truly wanting to kind of probably be in Chinese assets for next three to five years. On India, it's been one of the worst performers for the past six months. And if you look at the flow data, it's just been foreigners dumping the India exposure pretty persistently. It looks like a pretty broad-based situation to the extent that you started generating multiple kind of LPPL crash exhaustion signals on Indian equity. So, I think this is a pretty interesting time to start looking at India again. Obviously, it's not cheap, but the valuations have obviously reset a little bit lower. And certainly, within Indian single names, there's some kind of increasingly more interesting stocks to own as well. So, I think, from a global equity point of view, it's a pretty interesting shift where we feel like this China-India reversal somewhat done, and we're looking at going the other way. So, taking part down China, rotating back into kind of Indian equity exposure.

Erik: For traders who are on both sides of the market, is there a pairs trade there? That's short China, long India, or is it too early for that on the China side?

Tian: Yeah, I think obviously we have the two sessions right now. And, you know, expectations are pretty low amongst kind of, especially domestic onshore guys. So, it's possible that we come out with something that potentially surprises. But, yeah, I will say that's a reasonable way to pair trade, but I think the safer trade is probably just long India and staying on the sidelines on China, waiting to buy the dip. But if you just look at the charts I've got up here on relative performance, it is very extreme, year on year, relative return, India is almost a minus two standard deviation, and China's relative outperformance is like higher than plus two standard deviation. So, you know, if you are going to go for a pair trade, you generally just want to wait until it's this extreme. So, yeah, I think both could work.

Erik: Let's move on to fixed income on page 8.

Tian: This has kind of been the most, obviously, this is the most important price point. And clearly, this is something the administration is very focused on. So, I think coming to that because of that outlook for sticky inflation with, you know, we did anticipate initially that yields would rise, but it always felt like 5% would be like a hard ceiling, just because, it's kind of, we would describe as the best sample is not so much on equity markets, it's on like the bond market. And obviously that's that narrative starting to take hold a lot more, that there's just a focus on targeting US Treasury yields. So now that there's some growth scare concerns, yields have dipped lower. To us, the fair value for where we think 10Y is right now is around 4.2%, and so the market is kind of trading that zone now, it feels kind of about fair. So, I don't think it's a huge amount of edge from here either way. I mean, there's a couple of things we're watching to kind of potentially time the trades. The first, I think, thing that that's a bit under followed, but like one of the most important indicators to track is the US 5Y-5Y kind of real OIS. So, it's kind of top right hand chart there where, you know, this tends to be a bit more of a clean expression of where the market is pricing, essentially terminal real policy rates, right? So, because it's 5Y-5Y forward, you've really taken out a lot of the kind of vol and short-term things, and you're getting this kind of implicit anchor for West where the long term neutral rate, if you like, is trading. So, in January this year, that went all the way up to 1.9%, almost 2%, which was the level it was at during the October 2023, yield peaked, when 10Y last went to 5%. And so obviously that's been like a very, very extreme level which things break. And so, we've hit that level and come off a little bit now, that's kind of giving you a ceiling.

The other thing we're looking for, in terms of when the growth slow down really kicks in, is what I think a good indicator is the 2Y-5Y-10Y butterfly. And I got that plotting on the bottom left there. So typically, when this red line goes up, and if a surge is higher, that tends to be indicative of fixed income markets potentially anticipating a kind of growth slowdown. And if you overlay that with equities, you often find that surges in this 2s5s10s tend to be associated with equity drawdowns, just because when the 5Y point surges a lot relative to 2Y and 10Y point, that's usually a sign of the market getting worried that the Fed might need to be a bit more hawkish, which in turn leads to a kind of growth slowdown, and that then goes into an equity drawdown. And so, you're seeing like a mini version of that. So these are a couple of things to just to keep an eye on. But yeah, overall fair value, we think is around 4.2, if we do a 10Y yields test, like 4% on a growth scale and breaks it, that might be the point to reassess and be like, okay, well, growth LEIs, and if those things look fine, then that might actually be a chance to bet on higher yields or higher dollar again. But for now, we're kind of stuck in this, slight, no man's land set, neutral range. So, it's kind of very much waiting it out.

Erik: Let me just clarify what you mean on that last paragraph there. I could interpret your comments here, about 4% is a floor on yields, meaning, okay, you think it's going to stabilize here? Or if I look at your sticky inflation call, maybe you're saying it's not really stabilizing here. It's bottoming here and about to reverse higher. Which is it?

Tian: Yeah. So, I think if we break 4%, then I think there's a chance we get a tradable range. If you break 4% and I think it's very reasonable to bet on a rebounding to kind of 4.2%, 4.3% kind of range. So, you have a range to play. The difficulty right now is, I do think the market wants to

test that and really test the growth scare thesis. And to your point, it's kind of like we have to see that when the market does test the 4% break, at that point in time, are the high frequency growth indicators still holding up? So let's say we test the 4% tomorrow, 10Y goes to 4% tomorrow, then, based on where all the growth high frequency data is right now, we will feel comfortable saying, actually, there isn't a recession and inflation is still sticky, in which case, then the trade very much would be betting on yields rebounding quickly from kind of 4%. But obviously, if we just get stuck here, it takes us, like, another month or two to really test the 4% but maybe, that would have been the point where LEI has deteriorated a lot more, in which case, then obviously it might just be stuck, right? Because then that would be the kind of the stagflation and the Fed getting a bit stuck. Right now, the market is discounting Q3 cuts, right? Two to three cuts to year end. If inflation is sticky, how many more cuts can you price in? You know, maybe four cuts. But it's going to be hard to price a lot more in. So that's kind of roughly the parameters we're working with.

Erik: Let's move on now to the FX outlook on page 9.

Tian: So, this is obviously critically important, but a very difficult thing right now. What's interesting is that our long term structural models to short term models, to the positioning models, most of the models are actually slightly dollar bearish, not a huge amount, but slightly dollar bearish. But one of the challenges we're having with this model is that, to us, if we take a step back and look at the big picture, it does look like the policy mix that the Trump administration is pursuing is that Reagan analogy we talked about, right? There's a lot of, you know, back in the 80s, Reagan used voluntary export restraints instead of tariffs. It was essentially the same idea of trade policy to encourage FDI flows into the US, to encourage companies to invest in the US and to create jobs in the US. So, I think those policy mixes tend to actually be pretty dollar bullish. Because at the same time, you are still running a large fiscal deficit in absolute size. So, you would need like DOGE and like the fiscal policies to really shrink, to then enable the kind of dollar, to kind of break down Mundell-Fleming framework on the strong dollar mix. So, the base case is, if Trump is doing what Reagan's doing, which is essentially pursuing kind of the trade policy to get jobs back at the same time they are doing fiscal deficits, and that's causing yields to stay high for longer, then that mix tends to be dollar bullish. So, in theory, what should happen in practice, what should happen, problem right now? And so, our mindset has been, all our models suggest that the dollar does need to correct. We've obviously had that correction. And with the European defense stuff that's obviously giving another lead to kind of the Euro rally right now. I think we're probably, the mindset is to stay on the sidelines and actually ultimately look to put on a long dollar expression. Wants to see how this play out, just because the models might be saying one thing, but the policy mix still feels pretty dollar bullish. So, until the administration changes what they're doing, it's not something we want to kind of lean against. We don't want to fight that policy, even though Trump talks about, he wants dollar lower, rates lower. I think it's important for their policies to start reflecting it, for it to actually happen. It's very easy to just go, yeah, rates need to be low and dollar needs to be lower. But if you don't change the policy mix, it's very hard. Now, you could say that, hey, maybe they're trying to engineer a stock market correction and the growth slowed down to justify it. I mean, it's possible, but obviously, that's very hard to know in real time if they're doing

it. But for now, our mindset is probably, step back, let the kind of dollar correction play out, but ultimately, look for a chance that you go long dollar again.

Erik: Let's move on to commodities on page 10.

Tian: I think the most important, probably, like controversial thing, is on gold, where, I think this is the thing we've gotten a decent amount of pushback compliance on as well. So, I think, we turned bullish on gold about two years ago, so that timing was originally good. And I think we broadly liked gold up until basically the end of last year. And one of the concerns first right now is that for gold to continue to really outperform from here, you would basically need the kind of 1970 global monetary system redux, reform regime change for gold to keep performing. Gold's valuation is already pretty punchy. You know, one of the ways we value gold in, that's the bottom right hand chart, here we look at the global stock of G20 money supply. So, fiat money supply relative to the total global above ground stock of gold. So, you just say, how much fiat money is there, how much gold is there, and what does that imply? And I think on a lot of these metrics, we're kind of back to 2011, 2012 levels of valuation. So, to us, there's obviously legitimate concerns around fiscal around growth, around foreign central banks buying gold, that this is a necessary sign that gold is going to crash. It's more to us that, given we've had this very good performance of gold for the past two, three years, essentially, especially relative to fixed income, gold could just be stuck in and be stuck going sideways on a lot of volatility for the next two years. So, if you still need it as a core part of your portfolio to give you some protection as a real asset, it'll still probably be okay, but it's just pretty fully valued. And alternatives like buying TIPS and rotating to some of the more kind of industrial commodity that's still real assets, they just are much more reasonable kind of entry points and starting kind of valuations. So that's more what we're thinking on that right now. So ideally, take profit in gold, it's not necessarily fully a fade, but to maintain real asset exposure, we're leaning more into kind of TIPS and industrial commodities.

Erik: Let me just ask you a little bit more about the analysis that you described. Because although I don't think this is 1971 all over again, it does seem to me like this is a pretty darned pivotal moment in monetary history, from the standpoint that the things President Trump is proposing in terms of policy, really wanting to demand payment from other nations for their military protection that they receive from the United States, changing the relationship with Europe, we're definitely seeing a very significant change in the cooperation level between the EU and the United States with respect to the Ukraine war. Right now, it seems to me like those are all things that are likely to cause, at least European central banks, the ECB and the other smaller national banks to really start looking at diversifying away from dependence on US denominated reserve assets. So, I'm not saying it's 1971, but isn't there still a pretty strong argument that it is a moment of significant change in monetary history?

Tian: Yeah, for sure, I hear you. And I think that that's the tricky thing. So, I guess this is more like, what is the base case probability, and is it priced in, right? Clearly, those are things that are being realized, and they are justifying the previous rally in gold. A lot of the things that we're seeing is what justified this kind of need for gold to rally. And clearly, it does take time for

portfolio managers, multi asset managers, to kind of embrace gold. Now, obviously, this depends on who you talk to, but my impression has broadly been that, again, like we're three years into this, especially gold's relative performance to fixed income. So, it feels like, it's kind of well-known as a concept that, yes, obviously, and that's why we laid out a lot of these different potentially base cases, like yes, clearly it can continue to truly like a complete reordering of the global system, but there's some probability that this is discounted, and that's what the challenge is. And I think rotating away from dollar assets is a long term theme. So ultimately, we're kind of talking about whether the US will remain the global reserve asset, and if it's going to be the kind of still the default unit for accounting for transactions. And I think those things generally, at least when we studied the history of global reserve currencies, going back to the Dutch Guilder, going back to the British Pound, there's, like, a few kind of fundamental factors that generally determine the currency's reserve status. One is actually technical, technological superiority. So, if the country maintains technology superiority, they tend to have the best economy, the best growth, the best industries, and that helps. And two is obviously the financial system, how dominant the local currency financial system is, and their ability to extend credit to other countries. And so, on those things, I think, sure, China and the US are in the AI race, but the US obviously has a lot of things going for it, in terms of VC funding and tech innovation attracting the globe for elites and so forth, elite like talent that still suggests that US still has a good shot of maintaining a technology lead. And at the same time, if the US is doing this by getting other countries to invest in US bonds and essentially extending dollar credit globally, still, then that those things are generally supportive of kind of reserve currency state as well, in addition to US being the incumbent and kind of already, you know, Swift payment system, all these things. So those are probably like some longer-term pictures, things that I've looked at to suggest it's clearly a risk. But as a base case, those are really long-term anchors I'm looking at. But, yeah, clearly, it's fair enough, right? And that's why I say it's quite tricky that, you know, I don't think it's necessary gold is going to fall. I just think it might just go nowhere for two years. And I'm kind of looking at other parts of the asset spectrum, to give me my kind of risk-free or risk-off asset exposure.

Erik: Well, Tian, as always, I can't thank you enough for another terrific interview. But before I let you go, please tell our institutional listeners a little bit more about the services you have on offer at [Variant Perception](#), how they can find out more about you and how all of our listeners can follow your work.

Tian: So, I think the easiest thing is [variantperception.com](#). How we differentiate ourselves is essentially to have a much more of a kind of model first approach. So, we have a lot of different models we built out for trading signals like LPPL through to kind of the macro regime, macro growth, inflation LEIs, through to kind of longer-term capital cycle models. So, in terms of the output we have is very much being model centric, sitting on top of these models and tying together these different time horizons of trading, business cycle, longer-term structural cycle models to try and generate investment ideas and investment themes.

Erik: Patrick Ceresna and I will be back as MacroVoices continues right here at [macrovoices.com](#).