Rodrigo: **00:01:47** All right, all right. All right. Welcome, everybody. And our -- one of our favorite guests here today, Jeff Weniger. How are you sir?

Jeff: **00:01:55** I like being the -- am I one of the favorites, or am I the favorite?

Richard: **00:02:01** Ah, you're pushing it.

Rodrigo: **00:02:02** You're one of the favorites.

Jeff: **00:02:03** Hey, I'll take it. That's a nice thing for you to say. That's very nice of you to say that. It's good seeing you guys.

Richard: **00:02:10** Good to see you too.

Backgrounder

Rodrigo: **00:02:11** For those who don't know, Jeff is Head of Equity Strategy at WisdomTree, very, very knowledgeable, has a lot of interesting things to say, very active on Twitter. So, always happy to have him on. Given that our favorite co-host for disclaimers isn't here, I guess I'll have to do it. Just make sure that anybody listening, this is for entertainment purposes only. It shouldn't be seen as investment advice. If you want investment advice, talk to your advisor, or do your own homework. We're just a couple guys, a few guys here talking about global macro, and whatever we say, we might change our mind within a day. So, make sure you're getting your own advice at home. Mike will be joining us in a few minutes. He's just in transition right now. But in the meantime, Jeff, what's going on, buddy? What's new?

Jeff: **00:03:00** Not much, you know, doing my thing day in day out, doing what we love, studying markets, trying to figure out what the oracles that move our monetary mechanisms will do next, since that's basically the entire calculus of all this. And doing research on dividends at WisdomTree, that type of thing.

The Bear Market Rally

Richard: **00:03:20** And what is going on in markets?

Rodrigo: **00:03:24** That's a broad question.

Jeff: **00:03:26** Yeah. I mean, it's -- you start to wonder about what we saw there in the last, I guess the eight weeks up until a few weeks ago in late summer there, it looks like, in retrospect, maybe that was a bear market rally, we're not quite sure. It certainly has the looks of it. It's a market that is completely relying on interest rate directionality. I mean, it should be, it should be generally speaking. Every asset should be a function of whatever rates are generally something of some maturity, you would hope, like a 10 year, something like that.

But I mean, man, this has been a year where everything truly is tied at the hip, to whatever's happening in the bond market. You know, my wife earlier asked me, "Where do you think interest rates are headed?" Like, well, I don't know. I don't have the foggiest idea where interest rates are headed next. Part of me keeps thinking that what the Federal Reserve is doing, dragging all these other central banks along with it, that that pivot needs to at some point come because I've got 100 charts over here on this screen that I look at every day for the tweets and all that jazz, and a lot of the inflation leading indicators are pointing down. I don't know, really, what will … sticky inflation here. We'll have to see.

Rodrigo:	**00:04:56**	Yeah, I think it's first of all, I mean, we haven't seen this type of sticky inflation or inflationary problems since the 70s, right, where it ended, kind of nastily in 1981. But certainly what we can say that that the Fed has a pretty -- if you don't want to fight the Fed, the Fed has a pretty significant signal out there right now. And it's, we're going to raise rates for longer. And sadly, the inflation data is not coming in strong -- weak enough for them to even consider a pivot. It's kind of validating their current approach. I think that's an interesting thing. It really is like, oh, shit, this is something that the Fed can't pivot yet. Maybe we'll push out, those who were dovish might be pushing out their expectations of a pivot a few months out. And also, they have a credibility issue, right?
Richard:	**00:05:52**	Yeah, there seem to be two camps. That's exactly the point, Rod. There seems to be two camps right now. Some people think that all we need is for something to start to break in the market for the Fed to finally pivot or to finally start to change the tone from hawkish to maybe neutral, and hopefully it's dovish at some point, or hopefully just … . Whereas others are like they were so behind the curve and credibility was so much in question, that right now, there's no easy solutions, there's no easy outs, they're going to have to tighten, and the only acceptable CPI print is going to be 2%. So, until we're headed in that direction, or can see the light at the end of the tunnel, there's no way for them to soften their stance. Where do you stand on those two camps? Are you somewhere in the middle?
Jeff:	**00:06:34**	Yeah, it's, I don't know. This 2% that you mentioned, they just pulled that out of thin air. Optimal inflation is supposed to be, in the absence of these monetary manipulators, it should be negative, that through time with the advancement of humankind, prices for everything should ever so gently decline, just as we become more sophisticated at operating our own businesses. When I think about US inflation at 8.3, I mean, one of the things about it is the way that inflation is calculated too. I mean, that number that we see for August, year over year inflation is not really -- it's kind of magical. It's -- put your finger in the air and try to figure it out. Because you have a lot of variables in there that are severe lags. The owner's equivalent rent numbers, are not indicative of what is occurring at any given time, certainly not now.

Rodrigo: **00:07:34** Yeah, it lags six months at least, right?

Jeff: **00:07:36** Or 12 months, it could be anything. I mean, I was going to go down a path of nothing really making new highs in any of the inflation indicators. But let's take this direction anyway. It's a peculiar situation. Here in Illinois, the Illinois Association of Realtors reported that -- I can't remember whether it was the City of Chicago or the State of Illinois. One of them was down 4.1% in the month of July alone on home prices. The other was down 4.7%. Which is funny because nobody's writing articles about Illinois home prices right now in terms of the housing crisis people. They're all talking about Boise and Salt Lake and Phoenix here in the United States, and Canada has some question marks on Toronto and Vancouver.

But I'm thinking, well, that's interesting. We got home price deflation, at least short-term here in Illinois, the sixth most populous state, and certainly much of California, which is something like one out of every six Americans. But the shelter components of CPI, the first digit on the year over year is still a six, 6.7 or something, when you combine the rent and the owner's equivalent rent, which is what you Rod, the owner would rent out your own dwelling to a renter, if you were land lording your own house, which makes no sense, but that's how they ask it. But we do know that, okay, even if you have an Orange County house, where it's now soft, and maybe the price is down 5-10, it depends on who you ask, you don't really know, five or 10% from the peak in the spring out there in California. The reality is, is that year over year, they're still up something double digits.

Rodrigo: **00:09:22** That's right. Well, that's the big -- the question mark. Year over year the everything is up double digits, right?

Jeff: **00:09:29** Right. And so it's a situation where everybody knows, wink and a nod, that if you're in San Francisco, or Austin, or certainly the ones I was just talking about, you know, Vegas, home prices are down in the last 30, 60, 90, maybe 120 days depending on the city. But those shelter components of CPI still need to pick up the old data. And now Powell, J. Powell, Federal Reserve Chair is in one heck of a little dilemma because what they started doing maybe what, Richard, two meetings ago or so, started talking openly CPI in the Q&A. They're supposed to talk PCE deflators.

Rodrigo: **00:10:10** PCE, that's right.

Jeff: **00:10:12** Right. The PCE being the Fed's preferred measure of inflation. Here in our society, we are so drowned in information that we have multiple measures of inflation to go by. Pick one, whichever one fits your thesis best. And so in the Q&A, let's say late spring, early summer, Powell started opening his mouth and doing some CPI rhetoric. So, now he's in this peculiar situation where a lot of things are now at least, coming off the boil from where they were, June or July. But we are still going to have a situation where you're sitting out there in a Salt Lake City house, where the home prices are coming down in September and October, November, but the shelter components of CPI are still going up.

And this guy is sitting here telling everybody, I got to wait till 2% CPI. But these metrics are still trying to capture 2021 data into 2023. And you end up with here we are, just weeks before Halloween here, and talking about a fore handle on Fed Funds, despite the fact that what I'm just going to start to say is, I can't think of many things that are going up right now.

Rodrigo: **00:11:22** I mean, look, let's just understand that this is a long-term target that the Fed wants, right? I mean, just because what they're doing is, in fact, working. We're going from a peak inflation rate to a lower inflation rate and not as low as people thought. Exactly. Like in terms of the reading, what is it, it's lagging. Housing we'll probably start, we'll start seeing in the data in early 2023, if not later in mid-2023 in terms of housing. I would imagine the Fed -- like I know we all want to like beat down the Fed that they don't know what they're doing. But there's no way that they don't know that a lot of this data is lagging, right? They're data dependent, but I cannot imagine that they're just looking at -- they're waiting for every month's print on the CPI, understanding that it's a little late and not taking that into account.

Richard: **00:12:15** Not only that the data is lagging, but also that the effects of their monetary policy lags six to 12 months, depending on the measure that you're taking. But to your point about the multiple measures of inflation and the fact that it's not just PCE, but actually Core PCE, right? You're trying to exclude food and energy prices. But you have seen inflation starting to creep into stickier parts of the economy. So, how do you square that? I mean, the inflationary figures are starting to push into areas like you're talking about rent and other areas that could be a little bit more entrenched, if you will.

Jeff: **00:12:56** Well, and rent is, to me, because I've gotten bearish on housing lately. Rent is to me and rental vacancy, the situation on that front where basically, there is no vacancy. And that's the back of the envelope on it is the long-term chart, a month supply of rental vacancies has been going down. The housing bulls have a very good point on that. Good luck finding an apartment to rent. And that's anywhere. That doesn't -- that's not any…

Rodrigo: **00:13:25** We're at historic lows. I mean, the average inventory in the United States or a healthy inventory, apparently is two to two and a half million. We're at 1.2 as of September, right? So, there is a supply issue here that is, I think, been overwhelming the demand discussion a bit more as we see year over year prices up. Hey, Mike.

Richard:	**00:13:49**	There he is.
Rodrigo:	**00:13:49**	We're on housing here, buddy.
Mike:	**00:13:51**	Hello, hello. All right. What'd did I miss?
Rodrigo:	**00:13:54**	We're just on housing here.
Mike:	**00:13:57**	How's my audio? I'll let you guys chat and I'll catch up.
Rodrigo:	**00:14:00**	You're good, you're good.
Jeff:	**00:14:01**	We're going to get Mike right into the mix. It'll take all of 12, well seconds to pick right up with this. Well, one thing is that there's going to be -- we're at a record number of multi-family units that are in a state of being constructed right now. So, that will hit the market. It's just a matter of how much that will dent that. But --
Rodrigo:	**00:14:20**	Do you know what the…
Jeff:	**00:14:23**	Oops, he looks like he froze right there. It's something like 1.8 million units on multi-family. Is Rodrigo frozen or am I frozen?
Richard:	**00:14:31**	No, he is frozen.
Jeff:	**00:14:32**	He was frozen.
Rodrigo:	**00:14:34**	My internet's been going in and out all day, so expect that throughout.

Buyer and Seller Psychology

Jeff:	**00:14:37**	But there is a few things that concern me about this. One is -- well, let's see which direction you guys want me to go. You talk about buyer and seller psychology, which is -- I just got a really cool thing -- Okay. Okay. And then remind me to talk TINA trade. There is no alternative to zero interest rates. Okay, okay. That for the viewer, the TINA, T-I-N-A, there is no alternative to the thesis that died a year ago. Okay, so --
Mike:	**00:15:15**	December 31, '21.
Jeff:	**00:15:21**	And I say this as you get so many different responses, especially on social media, depending on whether someone is overweight housing or underweight housing. Right? There's almost a defensiveness to what we're trying to do here, which I think is cold-hard calculus on an asset, just like I do with dividend stocks, relative to the S&P at the Tree, right? And you are net short housing, if you are a renter, and you're rooting for this thing to come apart. And you are net long housing the longer ago you bought this thing, because it's a greater proportion of your net

worth and you can see it in the responses. And I don't really have a dog in this fight because I think my own net worth is really contingent on whether or not value beats growth, because I'm at a dividend shop.

Rodrigo:	**00:16:13**	Exactly.
Jeff:	**00:16:16**	You know, it's kind of like if the stock market rips higher in the next 10 or 15 years, my career will probably underperform, because that would seemingly be a stock market that rewards speculative companies. But if it's a you know, a regular, heaven forbid a regular stock market, my own career will probably be an outperformance relative to other people because I joined a firm is weighting by something that's not very exciting, the dividends.
Rodrigo:	**00:16:47**	Your point being that you don't have a dog in this fight. Your interest is elsewhere. You're looking at cold, hard data and your view is very bearish right now
Jeff:	**00:16:54**	Like I'm not on realtor. I'm not a realtor. I don't have -- We don't have, you know, we're not in any serious assets and apartment REITs, long/short or any of this stuff. But the example I try to give because it's like back of the envelope, and I think this back of the envelope makes a whole lot of sense to me, is that, right, so, you have a city and Mike, how many houses are for sale in that city? Just give me some midsize cities like, just give me a number.
Rodrigo:	**00:17:22**	Mike wouldn't know.
Jeff:	**00:17:24**	You know, I kind of -- I was doing one earlier. I was thinking like 1,000 houses. So, some city …
Rodrigo:	**00:17:28**	Like in Cayman Islands right now we have like, I think the inventory is at its lowest and it's like 600,000 -- Sorry, not 600,000, 60, 000 units, right, is what is -- and that's really low compared to historical norms, which would be around 100,000.
Jeff:	**00:17:47**	Okay, okay. So, just think about how many units like -- Okay, so you have like a -- let's say it's a small town, almost like a few neighborhoods or something like a few square miles or something but densely populated. Let's say there's 100 houses for sale in 2018 or 2019. And then like COVID comes along, everybody's just -- it's bidding wars and all that stuff. And there's only at any given time you log on, in the zip codes you're looking to buy in, like there's 30 or 40 houses to pick from, and that's been going on for the last couple years. And now things are like back to normal. We're at 100 houses for sale because that's pretty much been what I've seen, we're just doing these round numbers. But this is pretty much what I saw when I typed these in for most cities all across the United States. So, it used to be 100 houses and it got down to 30-40 houses, now there's 100 houses.

But what I point out is okay, you're the seller of one of those 100 houses. And so that house is sitting there on Redfin. And I can look at it and I can flip through it and you've listed it. Now you could take that off the market but once you put it back on everybody in the neighborhood knows you did that, and you might have some problem. Did you have mold in that house? Was the roof busted up and the home inspector -- why did you take it off the market and put it back on 60 days later? What happened? I don't know.

Richard: **00:19:21** Raccoons.

Jeff: **00:19:22** Right. And it's like then you get me, somebody like me walking through, I don't know anything about home inspection and I'm wondering why this thing got pulled off the market and back on. So, you can't do that. So, once this thing is listed, round number $500,000, now it's on there now your -- what you might say in poker, your *pot committed*. Now, if it was still 2018 or 2019, like let's say you walk in and you get a four, four and a half percent mortgage, then that's cool. You've got 100 potential buyers. There's 100 sellers, there's 100 buyers, these things are going to move in a few months' time. But that's not the case because some percentage of those buyers of your existing homes, whatever percentage of that stock is an existing home, are move up buyers, or move sideways buyers, or move across the country buyers, at the same price point.

And the problem is, is this is like, I mean, this isn't to me, this isn't tough. This is just Jeff talking to the other mothers and fathers at the soccer games. They all got two and seven eighths that they reified during COVID. Okay, so they're not going to be the move up or the move sideways buyer. They're going to be the, *I'm staying here*, because I've got 28 years left on this thing that I refi'd in the first or second quarter of 2020, and I don't have to do anything. But you, you listed that thing on the MLS, now you have to do something. You the seller have acted. You're one of the 100 houses that are listed. And you all need to do something. And what that thing is, is you need to slash the price because there's not 100 buyers anymore. There's 10 or 20, or whatever the number is because I don't know what the number is. But what I think is lost in all this and I don't want to go on big, I realize I'm going on like a rant here with you guys, is I don't think that mortgage amortization math is comprehended by 99% of society. But because I have -- Go ahead, Rod.

Rodrigo: **00:21:28** So, I agree, mortgages going from two and a bit to six, 6.2 I think is … has a lot of repercussions across the board, right, from home builders to home purchasers. Indeed, there's going to be less inventory, because there's going to be people that have locked in a 28 year mortgage that don't want to have to figure out and refinance that as they move to a new house. So, again, we go back to this, what is more powerful right now? Is it the supply side or the demand side, right? Because again, what you just articulated is the supply side going down. And that's what we're seeing, right?

Like, we're seeing less people willing to go and buy. We're seeing the ability to get a mortgage more expensive. We're seeing home builders, not having pre-approved people at two and a half. And then when they're finally building it and ready to go, they're coming in and saying I can't --actually the bank won't approve me at six points, right? So, I'm not going to be able to do that. So, homebuilders are building less, because they see the risk of not being able to fulfill future home sales. Right? So, I'm kind of seeing a lot of inventory issues. And that is overwhelming the demand issues.

Now, at some point that'll break. Right? At some point it's exactly what the Fed's trying to do across the board. They're trying to break the back of demand for everything. And that will include mortgages. And so I think there will be a point where there's going to be a bit more inventory, and there's going to be less demand. But it's still, as you were saying, if you look at the year over year numbers, month over month, yes, a lot of prices are down. The year over year numbers, we're still seeing double digits, right? So, it'll be interesting to see when that quote-unquote breaks. I think it's going to be a while. We got to get those inventories up, right?

Jeff: **00:23:26** Well, and it …

Mike: **00:23:27** Do we though? Like, isn't, in my mind, the housing market is no different than any other market. The marginal buyer or seller creates the last print of the price. And so I look at this and say, I don't really care, the inventory doesn't really matter to me. You can have lots of inventory, you can have no inventory. If the marginal seller can no longer buy, if the marginal buyer can no longer buy and the marginal seller is motivated, you have a market where you'll have significant price declines. And we haven't seen any improvement in affordability. The decline in housing prices have been offset by the increase in the costs of the interest costs of the mortgage payment. Further, you have the behavioral barrier of *wait a second*. I was just doing this at X dollars in payment with interest. And now it's Y dollars and it's just more, and I don't want to move now that it's more. Like I, behaviorally, I don't want to buy now.

Rodrigo: **00:24:34** So, I would say two things about that marginal buyer that's different in home buying than it is in stock buying. What if I were to say that I'm going to buy back 50% of my stock in my company and I'm a public company? What would happen to the price? Same demand, but now I'm going to buy back and I'm going to reduce the inventory, the amount of shares that exist in the market. Prices are going to go up right. This doesn't happen in stocks. Broadly speaking, you have a similar float. In housing, inventories matter, right. In housing, inventories matter. It also, there's a second thing.

Mike: **00:25:12** The marginal buyer also matters.

Rodrigo: **00:25:15** It does. I'm not saying one trumps the other. I'm saying one is trumping the other right now, and it's lack of inventory, if you look at the data, long term data. Like I see, Jeff, what you're putting up is more like shorter term stuff the last couple of months, right? You're seeing a bit of a weakness here, month over month, but year over year, it's still fairly tight. And because of that, going back to the CPI, 40 or 50% of the CPI comes from shelter, right? And so that's not going to seep into the market for a while either. And this is all due to this unhealthy market from the supply side. And people will need to buy.

Richard: **00:25:52** And this is widespread? Jeff, is this like something that you're seeing pockets of across the country? Or is this sort of a more generalizable trend that you're noticing?

Jeff: **00:26:03** Bull trend?

Richard: **00:26:24** No, I mean, the concerns that you have with the housing market right now.

Jeff: **00:26:08** Yeah, it's my national based concerns. And I mean, we always want to appreciate -- I mean, really, what we are doing for a living is assessing other people's emotions. That's pretty much what we do for a living. We try to do it with charts, macro charts, to gauge whether or not the next person is more freaked or less freaked than we ourselves are. And I mean, think, I'm now racking my brain as to when that guy, and all the rest of those memes stock people became instafamous by bidding up the value of companies that had jokes of business models, and that was in recent memory. And that's because US money supply was going through the absolute roof, and, electric vehicle company at a trillion dollars, what the heck, let's go for it. And zero interest rate policy. Well, they've been doing that since Lehman went under. I have no reason to believe that they'll ever stop doing that. Because hey, guess what all these modern monetary theorists are now, who are quack economists, famous. And …

Richard: **00:27:27** They've gone from the fringe to the establishment in a season.

Jeff: **00:27:31** And so the NASDAQ is going higher. And I happen to come up with some cockamamie thesis as to why I'm going to justify a 3% cap rate on some apartment. Because I can do that because well, I can get zero in a passbook savings account, or I can get 3% on this Brooklyn apartment and don't you know, home prices only go up, even though we just saw inside the last generation that they very well can go down. But I've totally forgot that anyway, somehow. And so let's go for it. And then suddenly, the rug has been totally pulled as, surprise, surprise, rampant money, inflation did end up creating inflation. And now suddenly, overnight money is on the threshold of maybe being 4%.

And one of the things I think about, just in terms of some of these assets that are predicated on perpetual TINA, they're going to come back to TINA here, Mike, there is no alternative in $19 trillion worth of negative bond yields, which was the case past tense, now no longer the case. You can only get a negative yielding bond in Japan at this point. And not even across the entire Japanese curve. Just you know, within a few years essentially is like negative seven basis points on a two year JGB. And in the US on a two-year note, which is of course a security that's very sensitive to the Fed Funds, you're at three and three quarters. And in Canada, you're also at three and three quarters on two years.

And so okay, I was thinking about buying some stock at 50 times earnings. Great future I'm told by their investor relations person. And so it's at zero on short, short and shortish term money, let's go for it, goes to refrain which is why the NASDAQ crushed everything from 09 to late 21 as Mike pointed out. As Mike was talking about December 21, I kind of think of November 21, we're mincing months here as to when the top of the psychology changed. So, the NASDAQ is the problem child of this market.

TINA justifications for assets that are, you know, like let's take that, like this is what I keep -- I can't get my mind around this. I've never been a landlord in my life. I have no plan of ever doing it. And I understand you can get a management company and all that to take the headaches off your hands. Let's say I don't get a management company. Why do I want to deal with this? Why do I want to clip a four and a half or 5% rental yield, I don't know in Chicago, I don't know what you get, four and a half or five. I can get three and three quarters on a two year treasury right now. I get the math, I get somebody saying it when it was zero for savings account. But now, I have no quote-unquote, equity risk premium here anymore on this annoying --

This is what I think of when I think of land lording. I think I'm sitting there on December 24th, having a big meal with my family, kids begging me to open up presents, and then the phone rings and some guy tells me that the toilet needs a plumber to come in there and fix it. That's what land lording is to me. Now, I could be wrong, but I'm just …

Rodrigo: **00:30:45** All right. May I tell you why? Can I tell you why? Because there's a few things here. It's totally, if you're comparing apples to apples, you got cash at 3%, you got a cap rate of 3%. One's volatile, one's not, one's problematic, the other one isn't. Obviously, you're going to go for cash, right? I think what's missing here and the reason that people do it is leverage. Right? This is the one asset class where banks are willing to give you as much leverage as you want, as long as you have good credit and you have some properties and we can get it back. And so if you're levering up 50% loan to value, right, now that yield on your initial investment is maybe not double because you have to pay some interest rate. You're increasing your return. Right?

The other thing, it feels solid if I'm a be hit with high -- talking about we're all animals, and we're all human. People, especially Latin Americans, love to be able to touch their stuff and say I own that property, right? Versus these zeros and ones in a computer in my qualified account portfolio. So, that's the second thing. I think people like to see brick and mortar. And yeah, so when you put those two things together, you see the ability to, in a worst case scenario, everything crashes, you still own land, that's going to be the reason why real estate will always be a place to go.

Jeff:	**00:32:05**	You know, it's interesting with the, you know, you mentioned with the cultural affinity audience, it's oftentimes the immigrants dream. I will arrive in Miami you know, like my wife's family from Columbia, for example. Let's get to Florida. Let's first things first, let's get to Florida. Second thing second, what is the American dream? Owning a physical thing? And maybe it's because of the history of Latin inflation and hyperinflation. We've seen it in very recent memory within the last two generations, certainly in Brazil.
Rodrigo:	**00:32:40**	Argentina just raised their rate by 75%.
Jeff:	**00:32:44**	Yeah.
Richard:	**00:32:45**	Venezuela, I mean, just hit a -- throw a rock, you'll have three countries that have had an inflationary event in the last couple decades, so absolutely.
Jeff:	**00:32:51**	Yeah. Certainly, certainly, the Venezuelan experience where there has been so much of that money has arrived and manifested in Miami property prices. And I do think that there's some of that and perhaps it's just that. And maybe that is the new psychological thing. And I could be very wrong with this experience with a 9% CPI gets people -- Yeah.
Rodrigo:	**00:33:17**	I'll also say one other thing, right? One reason why people have preferred real estate and why that's gotten out of control maybe from a percentage of dollars allocated, it's because it's most people, I swear to you, Jeff, most people don't even think about the cap rate, and what the yield is. They just know because it's true, that they're going to make 20% a year off the property by capital appreciation alone. I can't tell you the amount of people I know that just own property, and have like a cleaning lady come in and maintain it because they don't want the headache of having to rent it out. So, they are getting no yield on their property and they're getting, we're talking about mostly -- we're from Toronto,

right? So, a lot of Toronto people do that. Obviously, that's going to change soon, right?

Like well, I guess your point is, interest rates matter. Right? And the higher the cost to borrow of a mortgage rate, as that gets higher if you have to refinance, which is more the case in Canada and that is in the US, right? So, we're seeing the pain, we're seeing real housing, downward crashes and all across Canada. Because in Canada, most mortgages are five year renewable or 10 year max, right? So, people are refinancing at a higher rate, and they're saying crap, I can't afford my mortgage anymore. I'm going to have to downsize. Right? I'm going to have to sell my house. So, there's a lot more sell pressure there. And so what you're going to see is a structural change in behavior of *I buy because I know I'm going to make 20% annualized* to, well, we might flat line here for a while. What's my yield, right? And that'll be a change in attitude towards real estate, likely. It'll just take longer I think in the US because of that 30 year thing.

Jeff: **00:35:00** And I wonder if we will have a change in attitude towards a lot of assets? You guys know, I have been like talking about Japan for a while.

Rodrigo: **00:35:07** Yeah, let's talk about that.

Jeff: **00:35:10** And I mean, look, Japan has its issues, right I mean with the cross shareholding issues and the complete lack of willingness to pay out a dividend from your cash stockpile on your balance sheet. But there's only one central bank that's not throwing bricks at our faces, like J. Powell has, right? And like Christine -- I mean, can you imagine the situation where European economy is, for all intents and purposes is in a recession. And the source of inflation there, I mean, I don't want to take away from the European Monetary ramp of 2020 and 2021 also, but as an out, it's electricity and natural gas right now. And you're going to restrict credit to the tune of 75 basis points for one reason, and one reason only. It's not because you want to, it's because J. Powell was forcing your hand because your currency just fell down to parity against the greenback, when in recent times, it was the last, what, a year ago it was a buck 15.

And so now you are the ECB and you're tightening policy into this. And every chart, every single chart, it's like, just change your axis to rescale the chart because it's now at a new level, whatever economic indicator it is in Europe. Well, the only one that's not doing it is the Bank of Japan, which is basically doing the proverbial hold my beer thing. Right? The yield curve control on the 10 year JGB at 25 basis points. And so that's almost like a situation where if you conceptualize even a five or 10 year situation where Japanese earnings don't grow at all, but if the price earnings multiple is say 13 on an MSCI Japan or something like that, you have a seven or an eight on an earnings yield, then that seven or 800 over the entire Japanese yield curve.

Richard:	**00:37:05**	To what extent though, why is this --
Jeff:	**00:37:08**	Whoa.
Rodrigo:	**00:37:11**	Go ahead, Richard.
Mike:	**00:37:12**	I want to come back to housing.
Jeff:	**00:37:15**	Okay. Okay.
Rodrigo:	**00:37:18**	Go ahead, Richard.
Richard:	**00:37:20**	No, I was just wondering to what extent do you think this dynamic in Japan has to do with the fact that most of the government debt is held internally, by their pension plans, and it's not held internationally like it is a case for the Fed. And we are seeing some of this play out in the Yen as well. So, it's not like this is happening without any consequences for Japan. I mean, they have their demographic issues. They've been having them for a while. And now they find themselves unable to raise rates, because first of all, they don't have any growth. Inflation hasn't really picked up and they don't see it out. Right? Is there an alternative to what they're doing?
Jeff:	**00:37:59**	I mean, Japan has about 10 big broad flashing signs that say, stay away. I mean, the debt burden in Japan has been, for generations, the highest debt roll to GDP the highest of any of anywhere. And yeah, there is not really any foreign institutional ownership of Japanese assets to the same extent that it happens in, say, the United States. We don't, for example, speak to the adviser community in the US and they start asking about JGBs. That's not a thing. Americans don't own JGBs, Japanese government bonds, for example. Now, Richard, what you pointed out, I'd have to pull up on the quote, but Yen was at 144 last I saw, so forgive me, if I'm a little bit off, maybe you guys can enlighten me if it's not 144 right now, which is notably weak. So, the way you might be engaging a Japan fund, of course, this is, you know, coming from the WisdomTree person who has got a lot of Japanese funds. To the extent that you were long Japanese stocks, and you were not hedging the currency, then there's been large declines in those funds because the Yen in the last two years has gone from 103 to 144. That is the Yen collapsing. And I think the C word *collapse* is the apt term to describe a G7 nation witnessing its currency. Imagine if the Canadian dollar was at $1.03, and then we woke up in two years and it was 144. That's wild. That would be a wild movement. Now just do it to Yen, 103 to 144, right? Or if Sterling 115, a year from now is like a buck -- 150 or 70. I mean, these are the types of moves right.
Mike:	**00:39:56**	It's been a 25% decline over the last year.

Jeff: **00:39:59** Yeah, and so well there's a few ways to think about this. One, that the bear case on Japanese equities is, suddenly inflation percolates, because think about it, you're buying US dollar goods, let's say, right? Or basically anybody else's goods, because the Yen has been the weakest in the last year or two. And so now as that stuff arrives in Japan, oops, now Japan, for the first time has inflation, just at the time that maybe our thesis is that inflation is rolling over in the US. And now you have that quirky situation where, why do I want to own Japanese stocks when now the BOJ, Bank of Japan is giving us a hawkish surprise that is in no one's calculus? That could be the play out on that one.

The other side of it is, wow, look how remarkably competitive it is to hire Japanese, rather than hiring American. And I can't begin to express this -- now look, Japanese have spent the last 15 or 20 years doing what a lot of others did, which is moving the industrial base to China. So, it's not really like if it was 1980 or 1990, and the Yen fell out of bed, and let's say just to take the cliche of auto manufacturing, 100% of it is in. No, it's not. It's in Tennessee, right? It's in Ohio. So, it's not like you get all of that benefit from the wage arbitrage. But you get a good chunk of it. And now I got to try to think of these numbers from the OECD. Because since I did it, the Yen has moved and gotten even weaker.

But basically, the way it works is this, let's say I think the year is 2012 when I did this. I got the chart somewhere out there on Twitter. In 2012, the average American was making like 45,000 and the average Japanese was making like 45,000, plus or minus five. I think the Japanese were maybe 5,000 under. And then what happened is, and this is difficult for, you know, I'm an American. So, this is difficult for Americans, I think this is difficult for Canadians to conceptualize too, when I say wages went up. We always talked about wages stagnating. Wages did go up, just not a lot in the US and Canada. Here's your 3% raise, Merry Christmas, come on, right? But 3%, every year for 10 years is real money. It's not keeping up with inflation. But whatever you were making back there at 45,000, it's now something like 75,000. Maybe went from 50 to 75, or whatever the number was, make it three or 4% raises every year.

So, now the typical American is making 75K. This is as of 2121. But in Japan, I mean, you don't make any -- you don't get a raise. This is the thing. We talked to people in Texas, like I'm making the exact same amount I was making 1995. I think it's like that's what you hear. So, wages hanging tight at this level for all these years, maybe 1% wage growth, who knows. But the Yen 10 years ago was in the 70s, and now the Yen's at 144, maybe it's 142, whatever it is. And so when I did this, like two or three weeks ago, it was coming out to something like 27,000 US dollars for the average Japanese wage and the American is making 75K.

So, it's three fold to hire American in a strong dollar regime, than to hire a Japanese. And you hear this type of thing. I was talking to a guy and he said, why would I -- I'm in a sleepy town in Spain. I can have PhDs for what I can hire bachelor's degrees back in Chicago. Well, it's the same thing. It's the same thing. You know, if you need labor, and you're really willing to deal with the, in many cases, when you need official documents done in Japan, it's like a stamp and ink in 2022 rather than E-signing on your computer. So, it's Japan. But still there's this massive wage arbitrage that has opened up and nobody's talked to us about Japan. They don't want to touch it. They're like why do I even own foreign securities, because it's been underperforming for 15 years. It's like yeah, that's why. Nobody wants to touch it.

Rodrigo:	**00:44:37**	Yeah, Meb has those -- Meb Faber has those charts of like the most beaten up asset classes in stocks around the world and what happens five years later. I think Japan is, well, Japan has been that for a while, so is Russia. But eventually …
Richard:	**00:44:51**	Your point on wage arbitrage is interesting. I read something about, I think Citigroup has started to hire investment banking associates out of Spain. I think it was Malaga, the city, and they're willing to pay -- and they're paying them half of what they're paying their associates in New York exactly for the reasons you just described. The Euro has taken a tumble, not as bad as the Yen. But you're witnessing a US dollar wrecking ball as they like to call it. And it's creating all these opportunities for wage arbitrage and not just wage arbitrage, but also competitiveness in other industries. The problem is, you also have it at the same time, the attempt to destroy demand. So, you haven't been able to see some of this other trade dynamics play out and benefit these other countries, but it's probably going to happen, right?
Jeff:	**00:45:43**	Well, and you know, what's interesting about these currency wars, which I've started to call reverse currency wars at this point, because now it's everybody's fighting to not -- remember it was who's going to try to weaken the most. Now, like Christine Lagarde, hiking by 75 basis points. That's a reverse currency war. That's Lagarde trying to keep the Euro from going down to 90. And in all of this with the thing that's in the, well, I don't think it's in the background, they're talking about the second largest economy in China. You got a currency basket in China. So, it's not like Dollar /Yen where it's like 144 and then maybe tomorrow, it's 140, or 148. That wouldn't surprise me.

In China, you've got this thing is highly manipulated, this currency basket is highly manipulated. So, you have a situation where everything's weakened relative to the dollar. But the one that's really weak and aside from like, the real, like the Turkish Lira, and that type of stuff, is the Yen. Chinese Yuan has weakened, but just a few percentage points. And now you have a situation where China may not be competitive with Japan on a currency translation effect situation. The other thing about the Chinese that I don't know if it gets enough attention and it's --

maybe it goes back to what Rod was talking about, like a sticky inflation regime, that I think we need to entertain and consider. Okay.

So, Greenspan is going to take rates down to 1% to try to stop the Dot-Com crash, so that's what Alan Greenspan has decided to do, which was wild. We're going to print money, Greenspan is going to do it, and Bernanke is going to do it and so on. Well, that's fine because it's like $1 an hour in China. And it's like $35 for the same job in Ohio, I don't know, maybe not in the year 2000 or 2002, I guess, is the reference here. 20 times the cost in Youngstown, Ohio, then whatever the manufacturing labor is in China, at the turn of the century. Well, what's the thing about the power of compounding with Einstein, what is it?

Rodrigo: **00:48:05** The most powerful force in the universe is compound interest.

Jeff: **00:48:08** Compound interest. Well you like Chinese wages 10 or 15%, every year for a quarter century, guess what, China's not so cheap anymore. And that's the thing that I'm worried about, because I've got you know, I make bold statements, and I talk to you guys, but I've also been burned in markets before. You get a lot of stuff, you're just try to get like 53 or 55% of your calls, right? It's like it's tough. And so I've got some real cognitive dissonance with China inflation/deflation, because –

Rodrigo: **00:48:43** Yeah. I mean, you got the demographic issue as well. Right? So, we have an aging population there, no longer working. You have wages already high and less competitive.

Mike: **00:48:54** Well, the great thing in Japan is that you can sell more adult diapers than you sell children's diapers.

Jeff: **00:49:00** Correct.

Mike: **00:49:01** That is the state of affairs in Japan.

Rodrigo: **00:49:04** Do have any charts? Can I pull that up?

Mike: **00:49:08** Yep.

Jeff: **00:49:08** That I think let's guess, I think that crossed over 10 years ago, the adult diapers relative to baby diapers. That was like the thing. And of course, there's the extrapolation that by the year 2300, there would be no Japanese left at this current rate of procreation. No, but with Chinese …

Mike: **00:49:27** Population collapse is what it is.

Richard: **00:49:30** I mean it's not just China that is facing this. Russia is facing this. They say it's one of the reasons why they decided to engage in this war right now is because they see this as the last chance where they still have able bodied men to kind of deploy this sort of war, Eastern Europe. A lot of the developed world is facing this precise issue. The difference is the US and to some extent Canada are able to attract human capital and immigration tends to supplant what demographically, what the birth rate, what the collapse of the birth rate is missing out. So, it's a big problem across the world.

Mike: **00:50:10** Can I -- I want to just offer one little slant too on the Yen side of things. If you have from a contagion perspective, if you -- you've had this grand weakening of the Yen. And if you're Japanese and as you pointed out, Richard, all of your liabilities are denominated in Yen and you hold treasuries. And those treasuries have appreciated in value tremendously. And if we enter a period where now we're going to stop the US wrecking ball, the US dollar wrecking ball, and you as a nation are aware of that, and you're going to take the Yen from 140, back down, what do you do with those US Treasuries? You're going -- well, I'll put it to you guys. What do you think you're going to do with those US Treasuries? You're probably going to sell them.

Rodrigo: **00:51:07** You're going to sell them into a tightening Fed. That is …

Mike: **00:51:11** You're going to --yeah, you're, you're going to -- like you're -- the potential for contagion maybe is that it causes the US rates to go higher, because you're dumping these because you want to take that profit. You've got a Yen liability, and you don't want to lose this profit that you've had in US Treasuries on the currency side.

Quantitative Tightening

Rodrigo: **00:51:30** And that's part of a bigger tapestry, right? I mean, that is another nail in the wall against the Treasury market. As we go to quantitative tightening as the Fed is going to purchase less, we're going to have to have real buyers going into the market and purchasing treasuries and not purchasing credit, and not purchasing stocks. Right? There's this flood of inventory now. And Japan is just a story in the broader scheme of things in this quantitative tightening period. So, I mean we should talk about that. What is quantitative tightening? What are the risks in this quantitative tightening phase that a lot of investors aren't seeing?

Jeff: **00:52:18** Well, the primary risk is that we haven't really had to engage it at any scale, because these are all, at least in the last 15 years. Well, I guess more than 15 years because Japan started QE back there in the 1990s. But for all intents and purposes, we just invented these terms, quantitative easing, and quantitative tightening. Japan was the founding nation in that front. Well, at this point in mid-September is when the QT, quantitative tightening moves to 95 billion USD per month. So, that is a massive sucking sound. Now that, is it a problem? Well, it's a problem for risk assets. It's not a problem if you need to get a dozen eggs, or some bacon to put on your breakfast table when that stuff went up 77% US. And so that brings things back to reality.

You know, what I've often times put forth is why are these nations the relative havens, or at least up until this year? Like, why is Switzerland a haven and why was until this year, Japan a haven? Well, it's because your money wasn't going to get destroyed by the authorities in those covenants. That's why you get it out of … and getting into Swiss Francs, right? And this is why in the Nordic nations, Denmark, something like that, this is why there's a lot of trust and order in society. This is why there's no trust and no order in Brazil and South Africa, relative to these places, relative to Japan, right? Like, we as a society have vilified the concept of deflation. Like, oh, Japanese can't get it together. They can't get inflation. Well, good.

You also aren't going to get shot in Japan unless you're Abe, I guess. I mean, you know, that's probably … talking about like, you can get shot in Chicago. You're not going to get shot in Japan. And where is the disorder coming from? Why? If we run inflation at eight, nine, 10% the United States for the next 10 years you're going to be much more likely to get shot than 0%. 0% inflation is order, and yeah. And rule of law and trust that the monetary authorities that when you put $100 in a checking account that it's going to still buy you $100 worth of stuff next year. Once the distrust goes away -- No?

Rodrigo: **00:55:13** No, I mean, look, there needs to be -- you need to add liquidity to the system at the rate of innovation, right? Like it can't be -- if we have negative innovation and the world is shrinking, and we're actually reducing the broad GDP component of all the planet, then yeah, money supply needs to match that decrease in growth, which could well happen, given the demographic situation we're in. Right? I mean, the reality is that your money supply needs to match the efficiency growth, because you need to have -- you to lubricate the growth of the machine. Right?

This is a Euro dollar issue as well. It's one of the reasons why there were monetary issues a few years back, because the US wasn't supplying enough of the reserve currency globally in order to get the -- to have that 7% growth in India going, right? So, I think, I mean, what you want is the money supply to grow at the rate of growth, and no more. So, real rates, right. You want real rates to be matching, you want the nominal rate to be matching the money supply, and nominal rate to match real growth. And at that point, you're having some sort of equilibrium. Right? And you can't take …

Mike: **00:56:28** I also look, though, Jeff makes a great point here about why are these particular currencies considered faithful, if you will. And Macro Alf just posted a tweet on that particular point where he talks about corruption versus real GDP per capita. And if you pull it up in Twitter feed, the bottom line is *less corruption means more* *wealth for everybody*. So, when you ask, why is it Japan, why is it Switzerland, look at his chart. Lack of corruption, trust in the financial system, trust in the rule of law, means that you have a higher confidence in parking your assets in that jurisdiction, because you're going to get the return of that capital. And so there's -- …

Richard: **00:57:12** Let me push back a little bit on that.

Mike: **00:57:15** There's a lot and it's not just the one thing, right? There's a number of dimensions to this. But one of them is this trust and faith in whatever underlying governance and rule of law you have in a country that you're dealing with, or that you're putting your assets into.

Richard: **00:57:31** There was an interesting story a while back, I think it was just after COVID hit. And once again, the Yen, and the Swiss Franc caught a bid and everybody was talking about the safe haven currencies again. And they were explaining a little bit of the mechanics. So, all the things that you guys are describing is absolutely correct, rule of law, and sort of the cortisol level of the citizens of these countries is much lower, because you're not afraid to get shot, you're not afraid to be lacking shelter, or all these things.

But the dynamic they were explaining was, these are relatively small, homogeneous countries. They tend to invest abroad quite a bit. And whenever there's a global risk off environment, what happens is they repatriate their assets. So, they bring their money home, and that dynamic of selling out whatever currency they were invested in, whether it's the dollar or the euro, or whatever, and any emerging market, currency, converting it back to the Yen, or the Swiss Franc, and bringing that home, that dynamic, once there's a risk off environment, by the investors of those countries, of Japan and Switzerland, is what brings this bid, this upward drift into those currencies. So, that, I think, describes a little bit of the dynamic as to why we see these currencies being such safe havens.

Rodrigo: **00:58:54** Sure. And I'll also say, though, guys, we're talking about corruption here. We're not talking -- I don't think Alf meant for this to be a Nordic country versus the US. I think it's more Nordic country versus Argentina. Because look, the strongest currency right now is the US dollar, right? In spite of what -- I mean, in 19, in the early 70s, we detached from the gold standard, and it was supposed to be the end of the dollar, and it wasn't, right. It became the reserve currency, they've managed to have, to give the world a belief that their assets are safe, we're going to have the reserve currency be a strong dollar. And for the most part we could count on a somewhat reasonable economy that does run with a rule of law, that there is a way for you to have recourse if anything does happen. Corruption is at its minimum.

So, Canada is the same thing, also not with the gold standard, but just through their actions and through the rule of law, they have a stronger dollar versus third world countries. Right? Now these two tiny nations you can talk about all the intricacies you describe Richard as being one of the reasons why they're probably seen as maybe a level above in terms of US and Canadian and Aussie and Euro and UK dollars. But you know, it's really the developed nations' currencies continue to be fairly strong.

Jeff: **01:00:22** You know, Richard said something that was really interesting because the Yen carry trade which was -- here's the Yen carry trade for those people who are not living this stuff. It was, I'm feeling good about the global economy. So, what I'll do here is I will borrow in Yen, I'm in London, let's say, so I don't even have any relationship with Japan. And I'm going to, I don't know, buy a winery in New Zealand. Right? So, I'm going to borrow in JGBs for really, really basement lending rates because they've been doing QE for 25 years. And then I'm going to buy this risky asset like a, you know, I'll say like over in Australia, you buy like a Melbourne apartment with that. And then uh-oh. Okay, now here comes Bear Stearns is collapsing. Right.

And so now we need to sell the apartment in Melbourne or the winery in New Zealand, and I need to get my money back in and pay the loan off. And so what ends up happening is, is the Yen weakens as I'm putting that on. And then as I reverse it in the Bear Stearns panic or something like that, the Yen strengthens. That's essentially what Richard was pointing out. And that was a reliable reaction, was like, you know, Mike is be like, "Oh, the market really sold off hard today," I tell you, in 2005. Well, you know the yen rallied that day. That was like, definite, just like today, oh, the market sold off really hard, uh-oh, Meta, Facebook parent, probably had a rough day, right? These are all just the proxies for risk on.

And then what happened was like, whoa, Japanese are not the only ones at zero interest rate policy anymore. And so now I, maybe I'll borrow some Swedish krona and buy that winery. Or maybe I'll buy -- or maybe I'll borrow US dollars and do it. Because, well, Powell was at zero too, right? I mean, we had the 19 trillion in negative debt. Or really what you may be borrow in is euros. If you're a corporate-- remember, we had corporate triple A's, and Europe getting negatives, and maybe even double A's getting negative yields there at the peak of QE. And so now what's happened is, is we have a lot of these things have been -- have changed. We had rules, quote unquote, rules, because the market doesn't have any rules that were in place, which were, there's a panic, market selling off, give me some Google and some Facebook, and so on, and get me out of like energy. That used to be the trade.

And now it's, oh, there's a panic, get me out of the FANGs, right. Maybe the Yen rallies, but maybe it sells off because the Yen carry trade is no longer *a thing*. And so now there's a lot of things thrown into the mix here that have thrown people for a loop. And one of the problems for the last year has been, uh-oh, the stock market's selling off because also at the exact same time the bond market is selling off. And we've -- you don't know what 2023 brings, if it's going to -- if the trades are going to be different. But generally speaking, a good little rule of thumb has been if it was kicking everything's butt from 2019 to 2021, and you think that the bond market has trouble ahead of it, that's probably what's going to underperform in 23 by my best guess.

Richard: **01:04:00** We're back to the original theme. When we started this conversation was describing investor psychology, right, behavioral, the behavioral component of all this and you were talking about TINA. But really, the major driving force of what you describe is recency bias. I mean, we have short memories, we really have short memories. I mean, it takes -- there's very few money managers that are still active today that have seen stocks and bonds lose money together. And so I think people are still, to some degree, shocked. They're still believing that they can buy the dip, to some degree, and the shoe has yet to drop for a lot of these people that -- I mean partly they're still hoping that inflation is going to come down. They're going to be back to TINA dynamics -- …

Mike: **01:04:53** Look at the summer rally. To your point Richard, it was a reflexive bounce of bought BTFD, buy the freakin' dip. Right? And the regime is different.

Rodrigo: **01:05:07** But it's interesting because let's talk about the economy, because in the US economy seems to continue to be strong, right? It seems to have-- …

Mike: **01:05:16** I disagree wholeheartedly. Wholeheartedly, wholeheartedly disagree.

Rodrigo: **01:05:19** Hold on a second, but what you're seeing in earnings is not reflective of what you're feeling here Mike, right? Yet, yet.

Mike: **01:05:27** I disagree. We have global growth imploding across the world. You have 60% of the yield curve inverted. That was 70% a month ago. So, you take -- …

Rodrigo: **01:05:41** … the US economy here, right.

Mike: **01:05:43** I'm talking about the US yield curve. I'm talking about the US, the only holdouts. The only holdouts in the US economy, if you look at a broad swath of economic indicators that are leading indicators for recession. So, we have a problem in that everyone tries to nowcast everything and the nowcasts are just starting to turn over. But they're now-casting. If we look at the leading indicators, they are all saying, 11 out of 15 of them are saying, hey, it's a recession. You need four to safely make a recession call. So, we have 11 of them that are not saying the economy is strong. The labor, labor is one holdout for sure, which by the way, is largely lagging. And if you dig a little bit deeper, and you look at states that are more early indicators for unemployment claims, you'll see they're already turning up. So, there's not a lot…

Jeff:	**01:06:45**	Which states, the early -- so, I hadn't really thought about that. So, some states are going to give me a better guidance. Which ones do you know, offhand, which ones …
Mike:	**01:06:53**	I don't know, I can look them up. But they are the more marginal states where there's more of a transient insensitivity. They're not like the New York or the main manufacturing hubs. Like those things are a little bit more, they hold in. It's sort of like those, if I can make the corollary in the index sense, right? The generals get sold last and they support a lot of times that index. And same thing in employment, that there's these very large states that really kind of hold in the most. And what you want to look at is a little bit more of the early warning states to give you a sense of where you may be heading on a grander scale.
Jeff:	**01:07:30**	The big industrial base, something like that. So, you get industrials being because it's highly cyclical. And then so some midwestern state with big industrial base might be the first to go. Whereas the more service based, something -- Okay. I'm going to steal that concept from you and I'm going to make like …
Mike:	**01:07:47**	We'll follow up on, follow up the information on that. I'll send you the sort of the …
Rodrigo:	**01:07:52**	This is kind of exactly what I wanted to get at, Mike. This is what I'm trying to get at, right. So, I'm with you on all the forward looking indicators. The problem is that, what you hear when people talk -- when the talking heads on CNBC and whatever, they're asking about the economy now, right, the nowcasting, is that we're still good. You're looking at earning expectations to be on trend over the next 12 months versus the last three years, like they're expecting the same trend of earnings growth, right, the analysts on the street. And so the nowcasting group is saying, hey, we're still strong. This is a weird recession, if it is a recession. I don't care where the yield's inverted. Right. And so let's assume for a second -- what?
Mike:	**01:08:38**	Well, again -- …
Rodrigo:	**01:08:40**	I'm not saying I don't care, I'm saying they're not caring.
Mike:	**01:08:43**	No, I agree. This is the error.
Rodrigo:	**01:08:45**	There's a big disconnect between financial markets and the economy.
Mike:	**01:08:48**	I think we want to put more of an emphasis on the leading indicators, because that's where we're going. I think the error is trying to do nowcast-- nowcasting is going to tell you okay, now we're in a recession. Well, what use is that when

markets are off 30%, and you're like, I'm in recession. Like that's like an NBER recession. That's revisionist history. It doesn't help.

Rodrigo: **01:09:12** What's shocking to me isn't -- It's not. And what's shocking to me, and Jeff, you pointed this out in the beginning of the call, is that rate hikes have been the biggest driver of the drawdown in equities, right? Rates are being priced in, right, the QT needs to be priced in, right even though in spite of the fact that we'll be executing on it this month, the Fed will, it's priced in. What doesn't seem to be priced in is the hit to earnings, the future hit to earnings. The expectations there, it's not priced into the market at all, right. So, market timing is all about what's priced in and what isn't. I feel like rates are priced in, I feel like quantitative tightening is priced in, but the economic hit to earnings does not seem to be priced in yet. And that's kind of where I'm saying.

Mike: **01:09:57** I guess we would differ in that opinion, in that I don't really think the full …

Richard: **01:10:02** I want to hear Jeff's expertise -- …

Mike: **01:10:05** That's fair enough. But the full impact of rates, I don't think has been priced in either. That would be my sense, the only thing that you can look at across a broad swath of economic indicators that are forward looking, that is that all positive is labor. And maybe there was a marginal turn up in … weekly forward looking indicator, which is -- there's a possibility that it's a shallow recession. It's possible. I mean, if there's a lot -- there's a lot of work to do to make that happen, though. Anyway, go ahead, Jeff. I digress.

Jeff: **01:10:42** Sure. I mean, the S&P earnings is the million dollar question. And the street thinks that they're going to grow 8% in 2022, and 8% again in 23. And then so what I do is, I have to do two things. Try to figure out if something leads that, like what Mike was saying, and figure out if those forecasts are above or too rosy or too pessimistic. And then also in so doing figure out what do I want to be bulled up on relative to something else inside that stock market. So, I have two things I can easily get wrong. Now, it seems to me that those earnings are going to woefully disappoint. Certainly, maybe next year, because it's got a little bit of a lag effect between these tightening lending standards that I'll mention to you guys.

And then as those disappoint, I need to as a stock market, sell something. And that thing that I as the stock market had been selling in 22 is discretionary and tech. Now, maybe it's because the disappointment is coming out of utilities and staples, but that doesn't make much sense to me that a situation where the earnings are just fine in those sectors, but the utilities are laying an egg and staples are laying an egg. So, why do those disappoint next year? Well, I've got a couple of leading indicators that I think are plain as day. One is, you know, it's kind of like, let me think of an analogy. Maybe I don't have one. But if I ask you how was the weather on Friday over at the beach when it's like January, it's going to not be good on Saturday. But it was August, and so it's hot and then hot again?

Well, okay, what are we doing with the S&P 500? We are gauging the health of big business. So, one way I can figure out whether or not big business is healthy or not is maybe I can ask a bunch of small businesses, because it's kind of correlated, it should be highly correlated like a point nine. So, we have measures on small businesses. It's the NFIB survey, National Federation of Independent Businesses serving like a laundry list of businesses. And then they asked them this laundry list of questions. And the question is, is what do you anticipate your sales are going to be like in the next six months? What do you anticipate your earnings are going to be like in the next six months, or your earnings right now?

Or your sales right now, or your availability for credit, all these things that they ask them? And they asked them about earnings in the last three months. And I think the data series is 1985 to present and it looks like a bungee cord. So, that's the NFIB.

And then you coordinate that with a year over year change in the S&P 500, and they look like they're tied at the hip. That's one of them. And then the other one is you can take a look at the New York Fed senior loan officers' survey, which seems to me to be in direct alignment with, help me guys somebody throw me out a 10 year T note yield, 3.3, 3.4

Mike: **01:14:00** Yeah, call it 3.4.

Jeff: **01:14:02** Okay, let's call 3.4. And then let's call the mortgage rate six, some people are saying six and a quarter, you know, whatever, let's say it's six -- …

Rodrigo: **01:14:09** Yeah, six and a quarter, six.

Jeff: **01:14:11** Okay, let's go with six.

Rodrigo: **01:14:12** Treasury is at 3.45 and the 30 year mortgage is at 6.02.

Jeff: **01:14:23** All right. Okay, six minus 350 is 250. Okay, so 250 over, when the norm is like 150 over, so we have tightening lending standards in that one part of your loan book mortgage lending, corroborated by one of the New York Fed senior loan officers' survey respondents say, on that 14% of them said across my entire loan book, I am yes, I am tightening credit in the third quarter which is a fresh data point because it's third quarter. And then boom, overlay that on year over year S&P. This is what I was doing when I was 25 years old. Like hey, kid, here's a Bloomberg terminal. Find something that leads something else, and we're going to put it in the chart book.

That's like what I did for -- that's what I do all these years, and it's saying S&P earnings are going to lay an egg. So, I was like, well, I'm from a value shop. That's good news for WisdomTree because I think it means, uh-oh, if this stock market hit 38-3900 on the S&P, and if it goes down to 34, 35, whatever it goes down to, I don't know, maybe it goes up. Seems to me that the street will have to do two things. One, it will have to down -- revise those earnings growth projections down, which you do need to account for. Maybe we already know that, that's part of it. It's kind of like the unwritten rule in the street that they always kind of revise them down. But are they revising it down from 8% growth to three or 4% growth or to red ink? And in that case, what are they selling? I would think they'd be selling something like the Russell 2000 Growth, Small Cap Growth, which is like 28%, what is it, 28% by market cap negative earnings.

Rodrigo: **01:16:04** Long duration assets that are going to get…

Jeff: **01:16:07** Well, bingo. Long duration assets and I'm probably running over your time here, because as we just talked about 3.45 on a 10 year, call it three and three quarters on a two year, it doesn't make a whole lot of sense for these stretched type, give it to me at zero interest rate policy type assets. Suddenly, suddenly, you can get -- talk about utilities, and not get laughed out of the room. That's what this market is giving us. It's because of leading indicators so that's where I stand.

Mike: **01:16:37** Well, the other thing, Jeff is pricing in the fact that as you alluded to Rodrigo earlier, okay, if we're going to have positive real rates, are we going to get to 2% inflation where three and a half, 10 year is the right rate? I … we are. And if we get the long run rate of inflation being three and a half, that's five and a half percent yields or four and a half. It's four and a half to 5% in order to get to a real yield. So, now we've also got these long duration assets with falling earnings yields that have to have further discounts to their cash flow imparted to them, to make it attractive enough longer term, to buy those assets for a return. Like this is, it's not just the inflation and then a further discount has to occur because the volatility of the inflation that we're facing, is an order of magnitude wider. Right?

The distribution of outcomes here, and this is I think, a really good point here. We're talking about a lot of uncertainties. Everyone should realize that a lot is going to happen, a lot we're talking about -- none of it's probably going to happen, but some other stuff is going to happen. But what we can say confidently I think, is that distribution of outcomes has much fatter tails, and is a much flatter distribution. And we have less certainty of the outcomes. Contrast that to the last 30 years prior to December 31 2021, where rates were coming in, inflation volatility was squeezing, allowing you to pay more and more for those longer and longer duration assets. We are now unwinding that on top of that the potential contraction in earnings yield.

Jeff:	**01:18:23**	Oh. Let me run with something here. Let me …
Mike:	**01:18:26**	Go for it.
Jeff:	**01:18:26**	How long do you guys go for? It's been a while.
Mike:	**0:1:27:27**	For as long you want.
Rodrigo:	**01:18:28**	Another 10 minutes, Jeff.
Mike:	**01:18:29**	I'll stay here for as long as you want.
Jeff:	**01:18:34**	This is fascinating, because you know, go back to like, why do I want to buy, you know, the proverbial toothpaste company with a three or 4% yield, rather than speculative endeavor? You know, what, as a one man business operator, restaurant owner, that I might be or something like that, what would I do for a living as a one person business that everybody can identify? A restaurant owner, let's go with it. Well, like what's the best restaurant that I can own in terms of me, Jeff Weniger sleeping at night? It's probably a stop in on the way to work, grab a cup of coffee business, because I know really, really confidently what my Monday through Friday sales are going to be. And I even know if there's a 75% chance of rain, I can also probably predict my coffee sales, coffee and a donut. But what's really tough is if I have the $50 steak house and I don't know if there's going to be a one-hour wait at Saturday night, or whether there's going to be a *here, just take the great booth over by the window.*. I don't know, because I have more business uncertainty. And maybe this goes back to what we were talking about earlier with why I want to domicile assets in country A versus country B. the greater my sense of uncertainty with respect to my Brazilian real or my Brazilian inflation, which is all over the place, compared to the safety and surety, of, let's say, 1990s era US inflation, right, operating a business in country A versus Country B. This throws Mike Philbrick for a loop on his asset allocation, right, when I get German PPI like 38 right now. And I'm supposed to form an opinion on the future of German industry. That's my job. Like at WisdomTree, Jeff, have an opinion on German industries. Like, and I guess what the whole street is in the same boat as me. At least the four of us are honest about it. It's tough. And so we have more bus-- hold on, hear this out. We have more business risk. So, do I want to pay 20 times earnings for some broad market? Or do I want to pay 18 or 16, for that broad market? Maybe that's why multiples are so low in the 1970s in the United States. And maybe that's why some of these countries always had single digit multiples. I don't know if you can get a fair day in court and so on.

		And so you start to wonder, okay, Mike Philbrick lays out a case where we don't know where inflation is going to be, but we know what's going to be doing this, rather than what it hopefully would do in a well-ordered society, which is this. And because of it, do we want those Russell 2000 growth companies, is essentially what the situation presents itself as opposed to the toothpaste and soda pop company.
Richard:	**01:21:33**	Uncertainty premium, essentially, is what you're talking about.
Jeff:	**01:21:38**	Yeah. And … which is a regional thing up here in the upper Midwest, they call it pop. Down in Texas, they just call it coke. Did you guys know that? That all soda in Texas in certain pockets of it they just call it coke?
Mike:	**01:21:52**	No.
Jeff:	**01:21:52**	In most of the US they call it, what do they call it in Canada, soda?
Mike:	**01:21:56**	We call it pop. It's more of a US thing calling it soda, I thought. But --
Richard:	**01:22:02**	Well, I'm from Brazil, Jeff, so the country that you keep beating on so I've only come to Canada. But anyway.
Jeff:	**01:22:09**	Some places call it soda pop, I think 30 or 40 states probably call it soda. And then there's a few states up here in the upper Midwest where it's pop and it hits you. It hits you like a ton of bricks when you arrive in like an Illinois or Wisconsin as a new arrival like I did in my 20s. You want a pop? Like, oh yeah, that's right, they say pop. So, I said soda pop. So, how about that? So, I don't know what state that might be so I digress.
Rodrigo:	**01:22:36**	No. But look, I think that's the point. If you look at history, during periods of inflation, volatility, because inflation is never just inflation all the time, right? Like, listen, look at Argentina, right? They'll be fine, they'll be fine, they'll be fine. They'll have 10,000% inflation, they'll do something, bring it back, they'll be fine. So, inflation is volatile. And every time we've had periods in the 1940s, you also saw PE ratios go down. Right? So, the multiple gets contracted, because you need the higher risk premia for investing in a company that has more uncertainty than ever, right? We've had a one dimensional market for the last 40 years for the most part, which is more liquidity or less liquidity, high growth or low growth. If it's low growth, mad liquidity, if it's high growth and moderate liquidity, you've never -- the Fed never really has had to deal with inflation as this kind of second layer that you need to account for right now.
		So, now the Fed is limited by what it can do to fight inflation. So, it's not like, oh, that's -- inflation is up, the Fed is going to deal with it, we'll be perfectly fine. It's going to be soft landing, we'll be great. So, the more inflation volatility there is,

the more business volatility there is, the lower the multiple historically, that has -- needed to get a bid in the market. Right now we're just looking at the Shiller P/E, right. So, we peaked at -- let's go back to the 2000s, 2000 we're 44 Shiller P/E, right. We got to 38. I didn't even know that we got to 38 last year. Right. And we're at 28 now. Okay. The historical average, the median is 15. It's never stopped at 15. It … right.

Jeff: **01:24:22** Yeah. And in 1920, I haven't tweeted the Shiller P/E in a while and you can see he has some very cogent remarks with respect to you know, like record keeping in the old days and just there's better regulations, and that maybe the market would require a higher multiple. And so he makes a lot of good points on that. One of the cool things about when you're talking about, I think you said -- did you say 44 was the March 2000, 38 in probably November of 21.

Rodrigo: **01:24:54** November of 2021.

Jeff: **01:24:57** And then that would be a short P/E so that everybody knows that's the 10 year rolling average of earnings, a price divided by that. And then that way we can get it across the business cycle, that's for everybody to -- And last time I looked at the chart, the thing about it was in 1920, very critical year because we as a market … 20s thing about a year ago, that Shiller P/E was like four. Because I mean, it was still finishing off a war and also the Spanish Flu at the time, which Spanish Flu peak stopped 1921 was then the end of that pandemic. And so we're, oh, yeah, it's going to be the roaring 20s was what everybody was saying when we come out of COVID. Like, well, you guys, the starting P/E multiple was like a four or a five.

Rodrigo: **01:25:44** Yeah, April 2020 was 5.6.

Jeff: **01:25:49** Yeah. Okay. 5.6. And so there is that big difference. And look, we need to unwind this market. The great news is that the last year, we had that. But there's a lot of the real, real speculative goof, is still down 70, 80, 90%. But I worry, I worry about certain periods of time in the stock market lore, right? I mean, we from 1968 to 1982, the S&P 500 had a bunch of bulls and a bunch of bears and ended up in 1982 right where it was in 1968, and you got dividend along the way. We always want to point that out. And what I keep pointing out to people is, I mean, maybe it's because the US is more dynamic than the EAFE components, EAFE, right, Europe, Australasia, Far East, MSCI EAFE being the big index that we as an industry talk about for developed equities.

Well, we're like 100 points north at the March 2000 high and MSCI EAFE, which is the second most used index I use on a daily basis, right? Like, in my business, we talk S&P 500 or Russell 1000. Then we talk EAFE, then we talk MSCI EM, there's like the three that an equity strategy talk about, the second one. And it applies to everything under the sun that's not emerging and not United States, right? Italy, Germany, France, UK, Singapore, and so on. And that thing is right back on a price index basis where it was 22 years ago. And yet, you talk to Americans and they can't conceptualize a situation where the S&P 500 was 4,800 in the end of 2021, and maybe the end of 2026 or 2031. I don't know. But maybe it'll be 4,800 just like it was in the year 2021. And what do you do from a portfolio perspective? I mean, I don't know that I know. But I think it's clipping of dividend coupons. I mean, I don't know. I'm so …

Rodrigo: **01:27:55** Back to the same idea of housing, right? Where there were like, I don't need to get a yield on what I own because the capital appreciation of my house is going to go up 20% a year. We're going to have to go back to like, what am I getting paid for to wait here? Right? And Mike, you all -- I don't know, if you remember, I can't remember what the absolute number was. But you mentioned 1966 to 82, Jeff, as being kind of like a flattish and zero returning price value for the Dow. Right. So, for that 16-year period, you made no money on price. And then for the following 16 years to 1997, you annualized at 16%. Now what -- that was, that was the financial markets doing that. But the earnings rate was nearly identical for both periods. Right. So, you don't need and I can't remember what the absolute number was, but the point stands, right?

It's as portfolio managers, we have to disaggregate what the economy is doing, and what the growth rate is doing. So, maybe we are at a growth and maybe the analysts are all right, and maybe we're on trend. But the multiple is what's going to matter for financial markets. And that's what's going to matter for your portfolio. Right? And there's going to be areas that are going to suffer, are going to go from their highs to very, very lows, they've already happened, as you said in the NASDAQ, right, a lot of companies they're down 70%, and probably won't recover for a while. And there's going to be areas and sectors that are going to matter that own real things and have utility and paid dividends and are tangible and can push forward their inflation costs and so on.

So, this is kind of where we're talking about a market, a financial market that is currently talking about the S&P 500 index continues to be dominated by high flying, no yielding assets, where the small percentage of the S&P is real things. Right? I mean, I think commodities are what, 2% of the index right now. So, we're going to need -- this is where active management, I think, starts coming in. If the S&P is going to flat line for a prolonged period of time financially, even though earnings are going up, where do you want to rotate your portfolio toward? I think you're right, Jeff. If that's going to happen, value players seem to have a better grasp at earning some yield.

Mike: **01:30:22** So, I posted a Twitter storm on that in Q4 of last year, just on the earnings growth through that period. And how it was the same. The difference was the initial conditions. The initial conditions were a high multiple, in 1968, right, on those earnings. What happened is the earnings grew, but you went from a multiple of

16, to a multiple of like, six in 1982, you have to go look back at that. And this is a critical point, I think to understand and something that asset returns when rates are rising, are much lower. So, your equity risk premium on equities is normally 6%. Well, when rates are rising it's zero. So, and this was covered in the DimSum Report that Credit Suisse re-ups every year, and they talk about it, so they put it up in February, and they show these charts.

Listen, when you have rising rates, there's no equity risk premium. And literally, they just took and looked at when is the Fed raising rates? What's their equity risk premium? And when are they reducing rates? And what's the equity risk premium you get on the whole market? Well, on average, you get almost no equity risk premium while rates are rising. And when they're falling, you get all of it, which is not shocking. 1982 to today we've had massive equity risk premium. Now we're starting to -- now is this going to be persistent, pervasive term, rates are going to rise forever or are we going to get a Fed pivot? Is it going to be too dangerous for them to run the course they're running, and do they have to take rates back to zero again? You're going to have …

Rodrigo: **01:32:09** This is all about timeframes, right? Like what we're talking about is a decade. And within the 70s, there were bull markets and bear markets, right, as the Fed, fought and lost, and fought and lost.

Mike: **01:32:22** And by the way, when you had returns, the Fed was easing. And when you didn't have returns, they were tightening?

Rodrigo: **01:32:30** No, this is -- I think, short-term, could we see a Fed pivot as they see the economic numbers in a few months? For sure. Could there be a rally? Maybe.

Mike: **01:32:37** This particular factor is over the last 120 years, just so we're clear, like this is a long-term feature of the markets.

Rodrigo: **01:32:45** I agree with you. I'm agreeing with you. I just think that within that decade of rising rates or that period of rising rates, we have zero risk premia, like in the 70s. I'm just looking at the chart right now. Indeed, there was a zero risk premium in the 70s as they raised rates. So, the question, the thing is, from a portfolio construction perspective, we're not talking about the next three months, right? We're not tactical, like traders, we're not in this discussion anyway. We are certainly tactical traders at ReSolve on the systematic front. But if you think about what I think about and what you need to incorporate in a portfolio for the next decade, Jeff, like, have you guys put any thought into like, how asset allocation should be thought of differently in the next decade versus the last decade?

Jeff: **01:33:37** Well, I mean, it seems to me that well, and we have the old adage, or at least I don't know if the industry has it, but there's this old adage of just buy gold in 1970, hold it for 10 years, buy Japan in 1980, hold that for 10 years, buy tech stocks

1990, then I guess at the turn of the century, just buy some value stocks, then turn around 10 years later, buy some tech stocks. Five trades, you'd have more money than Warren Buffett if you did those five things. But the market comes to these periods of time where there -- it's time for a regime change. And the thing in the 1970s was that it was an inflation regime change. We will find out if this is one of those or whether this was just something that is a year or two nightmare and it goes away. But usually these, something big confronts society. And everything that was working in the market just stops being that thing. Now I get kind of confused because they go back and forth. Was this something big, was it the Vietnam War that -- Maybe.

Mike:	**01:34:46**	In the 70s?
Jeff:	**01:34:48**	Was the something big …
Mike:	**01:34:50**	It was the Yom Kippur War was like the oil shock and all that sort of stuff.
Jeff:	**01:34:54**	Right. I mean, but I'm just talking about just, you know, the all of it. Kent State, the Kent State massacre, Vietnam War, with inflation now buttons. And then I go into September 11th, and it's like, well, the regime change in the stock market had occurred a year and a half prior. The stock market started tumbling, but we did have this generational thing, this biggest event of my lifetime. Was that the thing that got us on a different wavelength where we no longer want -- the 1990s are over? The 1990s are over. It's time for me to now in this -- like that, that changed it for me, the viewer who woke up on that morning, is it that? And then is there this change, where we had a super cycle in oil, and then the banks collapsed. And now it's time to get into a massive stock market bull in March of 2009. And it's no longer about emerging markets. And it's no longer about crude oil, but it's about social media. Is that the thing? And I don't know. I kind of think I am on to something here. I don't have all the answers.

And I don't know, was COVID that thing? Like, was that just the thing where we wake up, we just operate as a society differently, where we just shake out of the last bull market? What was it COVID? Or was it just simply -- was it monetary policy? Maybe it was monetary. I don't know. But it may go back to the other one we were talking about, right? We had World War One and we had a pandemic and then something happened and we had a big bull market from 1920 to 1929. And I'm looking at this market, all of it's out the window. Right? Everything we just talked about, the Yen is weakening, tech stocks are in the tank. Right? Some things peaked in 2021. Other things like the proverbial apartment in San Francisco that peaked in the spring of 2022. Right? It's very much like credit started blowing up in July of 07.

The credit crisis begins, by most people's estimates, about August 07. The stock market didn't want to peak until October 07. And oil didn't want to peak until summer of 08. It's not going to be all in perfect timing. But it seems to me all that stuff has decided it doesn't want to be the stuff anymore. House prices, the NASDAQ, some company that's getting by on easy credit and no earnings and speculators on Reddit message boards. I think it's all out. And I don't know if it's a new regime change, but I don't want to bet against it. So, I'm on hold -- everything that didn't work for the last dozen years, that's what I'm bullish on.

Rodrigo: **01:37:39** Just say it, man. Just say it. Value, Value, right, is that…

Richard: **01:37:48** Let him talk his book.

Jeff: **01:37:50** Value, love Japan. You know, I mean, certainly that stuff, you know, I'm in a defensive value type mindset here, as you guys can tell from my remarks. We'll have to see if cash is an opportune asset class. We will at some point very fortunately for the bond market, get to a point where hey, maybe you'll get a four or 5% yield on some aggregate bonds. Fancy that. That's not half bad. You know, maybe that'll be a satisfactory asset class now that it has been taken out.

Mike: **01:38:26** But I wonder what transition happens, Jeff, when we go from the adjustment in rates, and then bonds start to act like that counterbalance to growth shocks again. I'm kind of wondering when that equilibrium to some degree reestablishes itself or does it not reestablish itself? Is it like the 70s where it just doesn't, it just -- they're correlated for that period of time, and there really is no saving grace coming from the bond risk in your portfolio?

Jeff: **01:38:57** I know. I think about all that where all these relationships that have kind of crept up in the last year or two between fixed income and equities. How long does it last? It won't last forever. Nothing lasts forever. Is it the end of this week? Does it go for a next year or two? If I wake up, what do we say 340 on a 10 year, if I wake up this time next year, and it's 240 on a 10 year, does that mean it's all back on?

Mike: **01:39:25** And how resilient is the global growth? I mean, it really doesn't look all that resilient at the moment. But you know, is there some way that we actually get an uptick and we see that the global economy can grow. Can China reopen, not cause massive sort of resource inflation that -- or resource inflation is attenuated enough that global growth can overcome it. I mean, that was that 03 to 08 period. The initial conditions were gold 200, oil nine bucks a barrel. Right. So, you came into this inflationary period, inflationary growth, yeah, you know, China was building everything. But there was so many commodities around and emissions were loose. We had a lot of excess supply.

And so growth could grow, and it wasn't choked by the lack of input in materials for that growth. That was the initial conditions. The initial conditions today for a number of reasons, maybe ESG related and whatnot, are not those initial conditions where we have abundant resources to provide cheap fuel for global growth. It's a really tough set of circumstances. Go ahead, Richard.

Richard: **01:40:44** You've touched on something that we haven't really discussed today. And probably don't have more time. Jeff's been more than generous with his time. But it's geopolitical risk, right? There is -- we went through this period where geopolitical risk was just not something investors have to worry about all that much. And all of a sudden, the beginning of this decade smashed this all with COVID, and now the war in the Ukraine, but we still have these underlying tensions that were simmering, and now continue to rise between US and China. And this sort of de-globalization, which is a term that has been thrown around quite a bit. Now, that is another variable that can pose a challenge for inflation and for growth, right? The lack of cooperation, the lack of availability of resources. So, that is something that investors haven't had to contend with for a long time, but seems to be front and center, and could pose a real challenge for the Fed and other central banks to control inflation, right?

Mike: **01:41:42** Scarcity creates conflict. We are no longer having the tailwind of the peace dividend. When the Berlin wall collapsed, and we had an opening of the Eastern Block, you had all of that lower priced labor, another set of initial conditions that opened up markets and labor -- a plentiful opportunity for global growth. We now have reshoring. We've got broad scarcity across a number of commodities, food, energy. That scarcity creates conflict. And that's the peace dividend that we have lived through over the last 30 or 40 years, call it also. Yes, correct.

Richard: **01:42:29** Really tough comps.

Mike: **01:42:30** Correct.

Rodrigo: **01:42:32** Yeah. And look, I always you know, me, I like to end things on a bright note, but the truth is that, here's a break. Okay. I'm going to say, I think what we're saying is, it's going to be a tough slog in a way that didn't happen in the last 30 years because of the Great Moderation, the fall of the Berlin Wall, that peace dividend. I think we're going to go through a more treacherous period. The good news is that, look, 20 years ago, if you're an investor, you didn't have ETFs. Right? Maybe you did have a few ETFs. You didn't have access to active management that can go long and short. You didn't have all these options that you have *Return Stacking* that we talk about all the time. I mean, the bright side for investors today is that more information than ever, tell you what's going on in that secular shift.

You can do your own homework, and you have tools available to you that did not exist for you, only for institutions 20 years ago. You can be a private investor, and an advisor with the right tools that can get you not only to survive it, but actually thrive through it. And I think that the ingredients you need is to reassess the environment. You know, if it's going to be a place like this, where you need to clip coupons, and yeah, value certainly plays to be. Being in multi-asset, long-short, being able to short bonds, we need to short bonds, we need to go long commodities, we need to go long commodities or short them in the kind of on the way down, as we're seeing the last few months. These are widely available, we just haven't used them to the fullness of their potential. Now is a time to start doing homework and learning about it and thriving in this environment. Right? So, that's the bright side here.

Mike: **01:44:14** Well, I think you're right, Rod. So, we shouldn't be too negative. But let's face the reality that we're faced with. Let's look at that and say, okay, now what do we do? Well, there's a couple of things that are pretty good. Okay, so things get pretty shitty over the next decade. Well, I can tell you, if that happens, had you been in the 70s and accumulating stock relentlessly through the shit, the volatility and you just been doing dollar cost averaging? And so it really is, are you 65 or are you 25? If you're 25, you're like, send the chaos. I will buy this every month. Not a lot of people did that in the 70s though.

But if you had accumulated all that wealth into 1982 and said, oh, well, all of a sudden, you have accumulated a lot of these stocks, if you will, and then they go on this bull run. Well, that's what you want if you're in the accumulation phase. If you're in the de-cumulation phase, you're really going to have to start to think about how volatility impacts my funding of my retirement. I'm going to have to pay attention to risk, I'm going to have to think about actually getting a good real yield that can adjust upward. There's a lot of stuff that I have to …

Rodrigo: **01:45:30** You're going to have to assess what the risk parameters of bonds are today. Right? Are bonds safe assets, is the question you have to ask. Mike, I mean, you remember, in the 70s, while rates went up, people didn't want to own bonds, because they know every time they bought them, they got smacked in the head the next month, when rates went up higher and their principal value went down.

Mike: **01:45:55** Well, the whole trade was actually, you'd sell your bond, get the capital loss, buy a new bond at par, do this thing over and over again, to try and tax optimize your bond portfolio through the 70s. That was the trick of the day, that helped people manage some of the taxation issues. So, I think you've got to keep your real return expectations a little bit more reasonable. We're in a rising rate environment, not a falling rate environment. You've got to pile on other risk premiums, not just the plain equity risk premium, you got to look for value, maybe throw in some momentum, you got to rebalance your portfolio. There's stuff you got to do in order to survive and thrive in this environment.

Longer term, these are going to be opportunities. If we get some dislocations, you can buy that toothpaste manufacturer at a 20% discount. But I mean, that's an interesting thing if you're going to be buying that for 10 or 20 years, and just you know, holding it like a Warren Buffett style investor. You've got to be prepared for some bumps along the way. The journey is not going to be quite, I think -- well, the journey might not be quite as smooth. Who knows? Maybe we're on the cusp of a -- it's 1982 and we're all going straight up for another 20 years. I don't know.

Rodrigo:	**01:47:05**	All right. Well, on that note, Jeff, let's end up with where people can find you, your research, what you're thinking, talk about your spaces and how you're using that as a tool to communicate.
Jeff:	**01:47:17**	Sure. The Twitter spaces. We've been doing them -- we've tended to be doing them about 05:00 PM on Monday nights. Sometimes it's changed. Right? Sometimes it's noon or what have you, but we've been doing them on Monday. We have Seema Mody from CNBC on this upcoming one on Monday. We've got it booked out well to October at this point. So, that's me and Jeremy Schwartz, my colleague from WisdomTree, WisdomTree Asset Management, the big ETF company. As you can imagine, we have a lot of dividend stuff. But we have a big broad business beyond just dividends. Certainly there's a lot of thematics, there's a lot of fixed income and so on. Yeah, we're all over Twitter. We also have the WisdomTree blog, WisdomTree Research. You can find the written word. It's just whatever methods somebody learns by, right. You learn by looking at charts on Twitter, or you learn by reading a 10 pager. So, Research Strategists, so I've got it all under the sun. So, guys, I'm flattered that you invited me back. I always love doing the pod. And everybody --…
Richard:	**01:48:17**	Thanks for coming. Really appreciate it. Yeah.
Rodrigo:	**01:48:19**	Yeah. Like and subscribe to all of our stuff, including Jeff's.
Jeff:	**01:48:24**	Subscribe to everything.
Rodrigo:	**01:48:25**	Yes, everything. Just hit Likes All. Like, Like, Like…
Mike:	**01:48:28**	Well, no. Unsubscribe to everything not on this and just -- Anyway.
Rodrigo:	**01:48:34**	All right. Well, thanks, everyone.
Richard:	**01:48:35**	Have a great weekend, guys.
Mike:	**01:48:36**	Great weekend, guys. Thanks all.
Jeff:	**01:48:38**	Take care.
Rodrigo:	**01:48:39**	Signing off.