Rodrigo: **00:01:49** All right. Hello, Hello, everyone. Welcome Vincent, Vincent Deluard. How are you today, sir?

Vincent: **00:01:56** I'm great. Happy to be here. Been a while.

Rodrigo: **00:01:59** Yeah, a little bit of technical difficulties. We are going to do it over the phone, but I think it's looking good. You're looking sharp, your tie's almost done, that's awesome. So, for anybody who doesn't know, Vince is director of Global Macro Strategy at StoneX. He's been with us before. He's got a pretty fantastic thesis that's been on point for the last couple of years. And if you haven't heard what that was, in full, you can listen to our previous website -- podcast. Before we do begin though, Mike, why don't you give us the old disclaimer?

Mike: **00:02:32** Yeah, of course. You know, none of this is advice. Three guys on a YouTube channel is not where you want to get advice from. So, we're going to have a nice wide ranging conversation about all kinds of stuff and be unbound by providing any advice to anyone at any time.

Allocator Narratives

Rodrigo: **00:02:48** All right. So, Vince, I actually wanted to start with the narrative I'm hearing from most of the allocators that I'm speaking to right now and get your reaction and then kind of pull some strings from there. The narrative I'm hearing from most participants is that, it's done. We've kind of hit peak inflation, we've seen the CPI numbers go down. This is basically a Fed pivot, if it's not already happening. A pause will lead to a liquidity event that will rise markets and everything will be fine again, broadly speaking. There's a few outlets but broadly speaking, people are starting to feel relief, and that this kind of inflationary period is over. In fact, there's some words about like, they're actually going to nail this soft landing. So, I'd be curious to hear where you're at right now in your thesis and maybe do a quick revamp of where you were at in terms of the inflation narrative in the last few years; how that has changed.

Vincent: **00:03:51** Yeah. I think it's always good to start with where people have been, because they have the tendency in everything, including in strategy forecasts. So, my bias and I'll gladly admit it, is inflation. I've been writing about the rise of structural inflation since even before COVID. I actually think even without COVID we wouldn't be at eight, we'd probably be at 4% inflation. I think we have a structural wave of inflation because of demography, because of China, because of the rising cost of capital, because of a crunch in the labor supply globally. So, that's where I've been for a long time. I think COVID at the beginning hurt my thesis because it was massively … for commodity prices and then eventually the market … rise. But the market … actually, the inflation just showed up in the data. And the market was ….

We had the whole transitory fiasco, the, oh, it's the supply chain, it's Russia, it's used cars, it's lumber price. I mean, every month was a new excuse. And then we got to that peak in inflation about 9.1% in June. And I agree as far as … told me, I think 9%, 9.1 was indeed the high print of a high print. I mean, there's a chance I think, in the next decade that we can revisit this kind of like in the 70s when you have … the First World shock, and then the real … was not until the Iranian Revolution 1979. But yeah, for now, I kind of agree with the narrative, inflation's going to fall and it's really mostly the fact that these firms, used cars are going fall. You see some things are rolling over; rents, construction. So, there is -- And again, it was never going to be a straight line up, from my perspective.

So, to me, the more interesting question is, not so much what next month's print is going to bring, but where did it settle? Did it settle back to two, or did it settle to four or five. And my answer is it's going to settle four or five, and that it's actually a good thing. And that the Fed, they knew -- what the Fed is trying to do is to show that it tried. And now that gives them a great opportunity, because the next four months, just because inflation is going to fall, it's going to look like they've done with it, that they would do. At the same time, the Fed funds rate is going to rise up, I mean 75 basis points. So, we'll have this kind of Goldilocks moment where the Fed funds rate may be slightly above CPI, which will match the definition that Powell has given himself for success, but the real rates, and then we can just forget about it. I think what's going to happen is the Fed is going to declare victory. They're very anxious to erase from people's memory the mistake of 2021. They want to show they gave it a shot.

And then once we are in that world, the surprise would be that inflation is not falling below three, or four or five. The same thing happened in the 70's, right. The Fed cut, inflation fell down from 10, but it stopped at four, five. But I think the real Fed … is not going to be to cut rates because the money is too weak, which is the consensus, right? I mean, we get all these Twitter people you know, fast forwarding, if you advance this series by 12 months, and then it falls and then you put the CPI next to it and it falls and you have all these -- it's almost a passion. People want the economy to fall in depression.

Now, if you start tightening into a depression, he's making the biggest policy mistake or that -- I don't think that's going to happen. And we'll be surprised with the resilience of the economy, as we have in the past nine -- in the past 12 months, the economy, if you look at the past 12 BLS numbers, Non-Farm Payroll, we beat 10 out of the past 12. So, the consensus is consistently underestimating the strength of the economy. And I think that continues to be the case in 2023. And we realize, hey, guys, what's wrong? You know what, 3-4% inflation, labor market's fine, people are getting wage increases. We have a reasonable cost of capital, we're going to learn to live with it, and we will be happy with it. And I think that is that my -- the original idea I would say of my inflation case, is that I see inflation as the solution, as it is a good thing.

Nature is healing. Inflation is the economy trying to rebalance itself, from what was a dead end. The period of consistently low inflation, lower rates, excessive debt, bubble building. A decade of inflation is the least painful way to rebalance the economy, and I think eventually, Powell will accept that. You see that already. I mean, I cannot count the number of op-eds that I've seen in recent days, about smart economist telling, you know, …, former head of the IMF, he had a paper at the Peterson Institute, 25 years of excessively tight monetary policy, saying that 2% was never the right target. Let's build from buffer on it, 3-4%. … made the argument and -- and these are all guys are very political, right? I mean, if you see them turn, it's because something in the wind is turning. So, I think the real Fed pivot will be to accept the higher inflation rate.

Rodrigo: **00:09:29** So, can I pull on that a little bit? High inflation is good to rebalance the economy. What you're saying is to rebalance it from high debt levels as in debt, you can reduce debt with austerity, you can reduce debt with growth, you can reduce debt with inflation. And you're saying that growth probably not there right now, given what's going on in the world and the global economy. Austerity was tried and failed in Europe. Maybe they don't want to do that. So, the only thing really left is inflation.

Mike: **00:09:59** Well, you can default as well.

Rodrigo: **00:10:59** Of course, yes, you can default and restructure. So, is that why it's good, out of all the options, out of all the bad options, that's the least bad and the one that they're likely to land on?

Vincent: **00:10:12** Yeah. So, there's a Ray Dalio's term, *The Beautiful Deleveraging* argument, right, which is the three options you mentioned. And I think most people understand that, and I think we agree with that. Yeah, growth, we cannot do anything about it. I mean, we can hope for productivity miracle. I mean, I think we did a lot of that with DoorDash and Zoom and all the disruptors. Well, we saw that didn't work out. So, anyway, growth is not something that's under Jay Powell's control. Then, yeah, we could do austerity and recession. But it seems to me that the cost of this is insane. I mean, it's a tax benefit analysis, at the end of the day. Surely, we could get back to 2%. I mean it could be like … like Volker to 10%. And then we get the 10% unemployment rate, we'll get the dollar index at 200, we'll get default across the emerging world, we'll get a global supply crunch. All that for what? For going to the number you made up in the first place. Like 2% is just as ambitionary as three or four.

So, I think at the end, the cooler heads will prevail, and agree that some inflation -- the worry of inflation is if you get to eight-nine, because then you get your -- like last summer was scary, right? Because if it keeps accelerating and get to 9%, then you get inflation expectation channel to kick in, and then you really lose control. But in a way I would think Xi Jinping has saved the Fed by having the lockdowns in China with deflated commodity prices. That was happening as the supply chains were easing, the used car. So, there is this lucky alignment of the stars that would get make it seem like it's under control. And that's all that we care about. You know, I don't think in -- like, households they don't form their expectations. Two to 5% is fine. And that's where we want to be.

The other part about why inflation is good is it's kind of a generational aspect. Which to me is the crux, the issue that we have for … across the western world, is a generational issue. We have this historically large Boomer generation, that had no parents because they were dead during the war and then very few kids and concentrated an abnormal … in the country. And they were very lucky because when they accumulated this wealth, when they started forming household interest rates were 20%, you can buy a house for very cheap, stocks were very, bonds were very cheap. And they basically were riding these bull markets in stocks and bonds and houses. And now they sit on all these extraordinary richly valued assets and they'll have to pass them down in the next 10 years. Assets need to move from Boomers to Millennials and Gen Zers.

And the problem is the Millennials and Gen Zers is not earning enough to buy these assets at the valuation that these assets are currently at. So, that's why we have the highest proportion of young adults living with their parents since the Great Depression. You know, it's not because they want to be playing video games in mom's basement, it's because they cannot afford a home, and they can't afford stocks either. If you look at a chart of the S&P 500 divided by minimum wage, it gives you an idea of how long you have to work to buy a share in the S&P 500. When the Boomers came of age, that was four days, now that's four months. So, we need the market to clear and in order for the market to clear, we need asset prices to go down and nominal wages to go up. And inflation does that.

Again, inflation is the solution. And it will rebalance the economy in a way that's ultimately beneficial. And again, think about -- there is no alternative. The alternative is Europe, where we keep having lower growth, because the growth is too low, the debt becomes unsustainable. How do we solve that? We cut rates so we can take more debt to create the illusion of growth. And then we have to cut rates again and what? We get to negative rates. We have, you know a mentality that collapses, household formation that collapses, demand that collapses and it's kind of a …. So, in a way inflation is the *deus ex machina* that will allow us to go back to a proper sustainable growth where we're no longer building bubble on top of bubble, which seems a good description of the past 20 years, but actual fundamentally driven growth with reasonable valuation and raises that allow people to build assets over time instead of investing in in Ponzi scheme and cryptocurrency.

Rodrigo: **00:15:02**

So, it sounds to me like your -- that sounds very much like a soft landing, and soft landing with a higher inflation target than what they're claiming they're going to do. But let's talk a little bit about why you don't ascribe to the fears that many others have pointed out that this tightening cycle has been the fastest and most aggressive tightening cycle in history. That there's a lag between when you start tightening and when you start seeing it in the real economy. Right?

So, the counter argument is that the economy is growing, the labor costs are resilient, that we're going to get through this without much issues. But the lag is eight to 18, eight to 18 months before we actually saw the effects of tightening. And people like Mike Green, even Dan Jensen from Bridgewater, Rosenberg, and what's his name, Raoul Pal are all thinking they've actually killed the economy. We've just not seen it yet. And we're going to be a negative inflation and deflation after this whole thing goes through. So, what are they getting wrong that doesn't jive with your current thesis?

Vincent: **00:16:16**

I think they are overestimating the wealth effect and under estimating fiscal, and I think in a way that's kind of the product of the past four years would be that the monetary dominance world, where monetary policy dictates everything. And I just find monetary policy to be not the best instruments for anything that the Fed wants to achieve, right. For 10 years, for example, we used monetary policy to reflate, and the wealth effect, give more to rich people, it actually will trickle down. I guess it worked 12 years after the fact. But we had to push a lot of liquidity in the system for very weak results.

So, doing the opposite, removing liquidity and deflating asset price bubbles in order to target the price level, I think is going to be equally ineffective, especially since there is a mismatch between… to me, the pain in the economy, the reason we have high inflation, and there's a lot that right now in the labor market, especially low and blue collar workers. This is where you see the biggest ratio of job openings to job seekers. This is where you see the fastest wage increases. And you can fire as many … managers at Twitter that were doing nothing anyway, they're not going to pick up fruit in the Central Valley in California or bus tables in restaurants or work in hotels. Mark Zuckerberg's net worth dropped by 75% this year. … has not. So, if it's a game of Whack a Mole, we're hitting the wrong mole. And we'll be surprised by the fact that the labor market is going to remain tight for a while. And these are workers that spend 100% of their paycheck.

So, as long as they keep getting these pay increases. Which by the way, another thing we're going to be getting next year is going to be cost of living adjustment of 8.7%. Everyone who gets Social Security in the US, it's about 30% of the workforce is going to get an 8.7% raise. So, it's not going to go down as much. And at the same time again, I maintain that fiscal policy is more important than monetary policy. And we will see. In Europe, we are seeing basically governments pay for the energy shock. We are seeing military budgets going through the roof. We will see fiscal impulse out of Europe, we might see some in China. I think the economy … when they reopen. The other one, they will do it again. And the US will continue to have rising deficits just because of demography. So, again, I think we're shifting from an era of monetary dominance to fiscal dominance and that in itself is inflationary.

Mike: **00:19:33** How does in a longer term sense when we're talking decades at a time, how do you think the ability to automate a lot of the jobs that are in this domain, automate them away, how does that potentially offer the opportunity for really global growth without the labor input, if you will? Or just thoughts on automation generally, and it's impact over the longer timeframe that you're talking about in this sort of inflationary rebalancing, and bringing sort of labor more -- rewarding labor more than it's been rewarded in the last couple of decades? And how might that play out? I mean, I can see a major move towards automation being quite an effective force of growth, potentially, and a reduction in the sort of the burden on labor. But what are your thoughts?

Vincent: **00:20:29** Yeah, I think it's the hope. I mean, certainly going to play out I think over the next four years. To me, it's a bit of a timing mismatch, because you need the robots now and you'll get them, hopefully, in 10 years. I will also point to the fact that Canada's simplest jobs are very hard to automate. Like a waiter, it's hard. Replicating the way a human walks is not that easy. Like, you can automate manufacturing, we've done a lot of that. I think we'll see automation in kind of mid-level, with AI. We do like accounting or -- but where we are, again, to me, the shortages are -- well, retail, I guess you could do a little bit of it. Hospitality services, it's going to be harder to automate these positions. And I would also say that there is a social element, a hierarchical element to work, that we want to be serviced by other people. It's kind of a --

So, I think we'll find yes, there will be some displacement of workers because of automation. But other parts of the economy will emerge to absorb these new workers. And one of the -- my big … from my inflationary place is the rise of the gig economy. That we are -- and that's the part that the Fed has missed, because we only track it. But you ask your average teenager what he wants to do. He doesn't want to be a firefighter or an astronaut. He wants to be a YouTube influencer or an Instagram celebrity. So, we are creating all these kind of parallel economies where people will provide service to each other. And that also creates a demand for the workers that will eventually be displaced by automation.

And I think that's one of the reasons, again, why we are seeing the steady wage growth at the bottom of the pyramid is because a lot of the workers now have the opportunity. The waiters that got fired after COVID they moved on. They became Uber drivers, DoorDash delivery. If they're good looking they become Only Fans model. They become -- and this is all not captured in the BLS data. And also, until the gap between these two closes down, the gap between the real economy and the gig economy closes down, we have a vertical steep curve. You can increase wages, but the supply and labor doesn't come in. And I think we'll see more of that going forward as the economy moves, more flexible and demand, gig based, as opposed to the old economy of nine to five jobs in big corporations.

Rodrigo: **00:23:44** Interesting.

Mike: **00:23:46** I've heard you talk about the sort of difference of the sort of conditions of this current potential recession that might hit with respect to the amount of wealth that people are holding sort of in their bank accounts and how that's never happened before. And I wonder if you could elaborate on that or share that with the folks that are listening to this particular podcast as well, because I think it's got some very interesting insights to it that are largely unappreciated.

Vincent: **00:24:18** Yeah. So, you can check that -- I mean, … they report cash deposits in checking accounts in the US, it's an insane figure. They're saying it's up by like 400% since COVID and it's fairly normalizing. Even for the lower quintile, they still have three times as much cash in the checking account than you had pre-COVID. And to me that tells me that the demand is going to be resilient. People don't like to pay $4-5 a gas. Prices are crazy. But as long as there's money in the checking account, that money's going to be spent. So, I think one of the issues with the whole, it's kind of a doom scenario. Oh, the Fed is going to tighten, and everything's going to fall. These people are rushing to the end of the movie. And they may be right. I mean, at some point, surely, they will be right. But you have to go for the middle part.

So, first people need to draw down the money that they have in the checking account. Then they'll put it on the credit card, then they will have trouble paying the credit card debt. And then finally they'll default and then you'll see. But at the current pace, it's going to take more than two years for cash balances to normalize. So, we can still live on that for a while. Higher rates are going to take a bite for sure. But most of the debt that's outstanding in the US was issued when rates were very low. And you only, let's say your average duration is nine years, you only roll out 10% of your debt every year. So, it's going to take some time before the effect of this tightening is felt. We have a lot of deleveraging from COVID. So, again, I think the --

And on top of that we have this gig economy, which I think is something that people are missing. And it is a way that workers are adjusting to higher prices, is instead of getting assumption they take a gig, and that came out in the latest LinkedIn data, Monster survey showed that the number of people working gigs exploded in recent months. Also, I think that's one of the reasons for discrepancy between the -- in the last Non-Farm Payroll number, you had difference between the establishment survey and the household survey. And the difference was attributed to people working two jobs. So, again, that is a big difference between now and 08. 08 you lost your job that was it, you defaulted on your home payment, and you get that deflationary spiral. But here, if high inflation means you're going to work a second job, that means your consumption is going to be more resilient.

Mike: 00:27:07 And that cash in those accounts, I guess, is sort of a persistent inflationary impulse as well, I'm assuming, right? Because you can continue to spend even though there's a contraction. Is there a point where the consumer starts to realize there's some economic trouble and starts to retrench a little bit? And even though they have cash, starts to spend less? Or is it -- do you view it as they just will roll through that spending then load up their credit card and hope that things work out that they can continue their current lifestyle at whatever this inflationary impulse is? How do you view that? Or do I have that right?

Vincent: 00:27:47 Yeah. If they were Germans, yeah. You know, but they're Americans, they did it the American way. Put it on the credit card and hope for a good time. And I say it with love, okay. I'm a European, I'm naturally pessimistic. And I save 18% of my income and what if and what that, but I love that about the American spirit, the endurance, resilience. Every American you ask them about their, you know, this year was bad, but next year is going to be so much better. And you know what? I think that's one of the reasons why the US is more resilient and more dynamic is because people have it, some would argue irrational faith that things are going to turn all right for them and, yeah.

Mike: 00:28:34 And failing's okay, going bankrupt is okay in the US. You just start again. I mean, there's no stigma to it socially. The labor force is extremely adaptive due to the lack of support in the labor laws. You can just lay people off and then rehire them. And that ability to really adapt to the economic conditions and push that to the end worker, that labor force, takes that risk. It does allow for business or the business side of it to take less of that risk. So, I do think that that's an adaptive feature that is unique to the United States of America as well.

The End Game Scenarios

Rodrigo: 00:29:11 Well, so can I actually go back and -- I want to ask you about … the risk of recession, right. So, what I'm hearing is that the endgame here is 4% inflation, everybody's going to be fine, it's going to be good, we're going to reduce debt, we're going to rebalance the economy. But let's talk about the order of events here. Are you calling for that to happen within the next eight to 16 months and be done? Or are we going to go through some cycles here? I mean, is there a point where the Fed stops doing tightening too soon and we got a bit more inflation and then they have to go back and tighten some more before we get to this ultimate 4% level? Or is it a one and done thing and soft landing is in, and Bob's your uncle?

Vincent: **00:30:00** Yeah. No, I think you're right, it's going to be an iterative process. We're going to try and test and eventually we'll settle to that level. I think if I were to make a guess in terms of monetary policy, what Powell has said is, you know, don't worry too much about 75 or 50 or whatever. It's the destination, not the journey, right? Well, he's correct. I think Powell can take a little bit of a step back, right, it's deflating, 75 is probably overkilling it, he can take his time. I do think he wants to go to five. And then I think what we could see is a divergence between a key tool that the Fed has. There's the rates and there's the balance sheet. And so far, we've used them mostly in the same direction, right? We've done QT and rate hikes at about the same time. And there's no reason for that. So, that's a degree of freedom that the Fed had that they didn't have before. If you want to ease, maybe you don't cut rates, maybe you allow the balance sheet to grow or at least you stop shrinking it. So, I think the Fed will use the balance sheet as the variable of adjustment. Also, because that is the result, something breaks, right?

I'm more concerned about liquidity, especially in the treasury market, or something weird happening, like what happened with Repo a few years ago, what happened with Bank of England. Like, we don't really know what we're doing here, okay. We're just taking 100 billion off the balance sheet and that's done, we hope it goes fine. But there is no template for that. So, I think it'd be a lot easier also, from a policy standpoint to just announce a new …, PTT, a PS whatever like, some technical, oh no, we're not easing, we are providing emergency liquidity in order to save the pension of the hard working men of America. Politically, that's very, very easy.

So, I think that's the -- yeah, that's the path is, we get to five, but instead of having three rate cuts that the market expects by the end of 2023, what we do have is, if the economy slows, which is not necessarily my case, but or if there is an accident in trade markets, then we see the Fed walk back on QT, maybe do some emergency liquidity injections. And I think that's not a bad way, right? I mean, we have this kind of dollar shortage. I'm sure you've heard people talking about that BIS report. We're playing with liquidity, we're playing with fire. And the consequences of a global liquidity crises are a lot worse that, yeah, high rates, okay, some leverage real estate developer is going to go bust. Some stupid unicorn that had an observed valuation is going to fall; all these are good things. You know, crypto bubbles. I mean, these are things that the Fed wants to see. So, I would keep the rates higher, and then adjust with the balance sheet.

Mike:	**00:33:33**	What about the -- I mean, so we've got a political aspect of this too, because fiscal policy driven by governments in power are going to try to direct funds into the economy at certain specific groups. And then the monetary policy is going to have to reflect that I think. Are they not -- We're going to have some tension here between two different objective functions a little bit, or do you think we're -- How do you perceive that?
Vincent:	**00:34:01**	I mean, I'd go back to that, … was the name of the guy, Bank of Minneapolis, 1980 paper on *fiscal versus monetary dominance.* It's a great paper, basically argued that you have two sorts of regimes. One is the regime where the central bank is the constraint, and tells the government, you know, that's basically the European world, right, where the ECD says, hey you got to cut spending or I shut down the ATM, what we told the Greeks or the Cypriots. So, that's extreme monetary dominance. And then the other regime is fiscal dominance, which was what the US had after World War Two. I'm going to give back control and whatever the private sector cannot absorb in that debt, the central bank is going to absorb. I think we are moving to fiscal dominance. So, the answer to your question is, I think the Fed or central banks are going to do what the government tells them to do rather than the opposite.
Rodrigo:	**00:35:06**	Yeah, wasn't there a leak around that time that he said the Federal Bank is independent, but not independent *of* their actions, that they're always reacting ultimately to what the politicians end up doing.
Vincent:	**00:35:22**	Correct, correct, correct. That's the second part of the paper where he showed even if they try, it doesn't work, which may be where we are in today, where we have the attempt of monetary policy to kind of normalize and then -- Yeah.
Rodrigo:	**00:35:35**	No, I think a big gap here is the fact that we're coming into elections for the biggest economy in the world. And whether fiscal spending is going to be on point for, if anything, if there is a gap in the economy. Do you see a real fiscal spending in the US for the next two years? I don't.
Vincent:	**00:35:55**	I mean, a lot of the fiscal spending is on autopilot, right. I mean, Social Security? I don't know. The quick answer is I don't see like, because we have divided government, right? But it works both ways. Right? That also means you will not see consolidation either. You can see nothing, right. You just see them bicker and argue. I mean, taking a kind of longer perspective, it seems to me that the -- there is no Tea Party anymore, there is no consistent -- there is no Blue Dogs, there is no -- no one is really finding austerity the way it was after 2010. So, my case is almost independent of politics. Everybody believes in MMT now. And even those who don't, have to do it. And like you look at Europe, again, I go back to the -- I mean, what the German government does is insane. I mean, they tripled the

military budget, they will absorb the cost of higher energy prices. So, yeah, the government is picking up the tab one way or the other.

The Goal of the Fed

Rodrigo: **00:37:12** Okay. So, back to what the Fed's goal is right now, which I think you mentioned that it is to ease off the inflation in the labor market, right. Like, that's ultimately what they're trying to get down, I think, what is it at, 5-6% right now. I mean, with the strength of the economy, like you said, the gig economy, it's going to be a really difficult thing to do. And I got to say, like, when you look at what the Fed has done, central banks have done versus their indicators and versus the lag, they always seems to be behind the curve. They always seem to be not getting the timing quite right. And from what I've read, the impact of the labor -- So, you impact the economy, you impact growth, from the moment you start tightening between nine and 18 months, but it takes a lot longer to impact labor. And the question is whether they're going to get their ducks in line, understand the lag and act accordingly. Do you think that they're going to really stop tightening until they see that labor number go down to 4%? I mean…

Vincent: **00:38:26** Okay, this is just me speculating here, and so I have no --

Rodrigo: **00:38:33** No, no, no. It's just between us girls.

Vincent: **00:38:34** -- no hard data other than my guess here.

Rodrigo: **00:38:37** Your intuition about the Fed and what they're capable of doing. Yeah, yeah.

Vincent: **00:38:41** My intuition is that they know. What they really want, they don't want to kill the labor market. Why would you, right? I mean, for forty years, we had all these wealth concentration, inequalities, wage gap between minorities and non-minorities, young generation not -- all of this is flipped now. Wages are growing faster for non-white and white, uneducated and educated, hourly and non-hourly, … Why would you want to kill that? So, I think what they really want to do, and I think Jay Powell is doing a fine job at this is, kind of like I have with my four year old, "Oh, if you do this, I will unleash my anger on you and you won't have the iPhone for a million years." But really, I don't mean this.

So, they want to show that they tried. They want to erase the perception of the historical mistake of 2021 of keeping too much accommodation, so they have to talk stern. But at the end of the day Jay Powell is a smart guy. I have a lot more confidence in Jay Powell than I need Bernanke and Yellen, because he actually ran businesses. You know, he was smart enough to like when he saw that the model stopped working last week, like, okay, forget about the model. And I don't think you raise this kind of position by being an ideologue. So, he'll know where to go. And I go back to all these op-eds recently of all these smart economies telling you like, oh, you know that 2%, maybe. So, I think he's going to stop before he breaks down the labor market. Also, because I think the labor market is a lot more resilient and a lot more tight. So, you know I mean, look at where we are today.

Rodrigo: **00:40:41** But isn't the labor market staying strong what leads to the decoupling of inflation expectations? I mean, we certainly feel it here in our business, right? You see employees asking for a bigger wage, 5-6%. And then the service provider's giving us a raise and costs of 10, 12%, right? Getting ahead, giving us an even bigger inflationary cost in anticipation that employees are going to ask for more every single year. Right? So, it's I think, labor market and inflation expectations decoupling is the fear here from the Fed, and the way that they squash that is through squashing the labor market growth of inflation. So, I think that's why they'd want to crush the labor market. I don't think you can have a strong inflationary labor market, and then have no inflation expectation decoupling, I just don't see it. I think they've seen in history that the way to do it is to really get back, put that one down and make sure that we get to a more reasonable three to 4%. Anyway, again, we're both speculating here.

Vincent: **00:41:44** What about margin? What I think you're skipping. So, okay, if we step back, the problem we have is a supply side problem. You know, we under invested, we have China that's no longer sending us cheap stuff that they used to. Russian commodity output we can't get any more or as cheaply as we can. So, something's got to give, right? And the question is, which, who's going to give? And you have three ways you can solve this, excluding default to like, you know, …. One way is broad inflation, you reset the price level. One way is you have … with a recession. And then the third way is margin. You just accept that hey, yeah, you're going to take it from the margin. You know, we had four years of super profits, we had after COVID, we gave handouts to everybody. Everybody made out like pigs so, maybe we accept that, the standard increase in profit margin is over and we have a fairer, more balanced split in how we split economic growth in workers and capital owners.

Mike: **00:42:59** Do you think that the current sort of expected valuations on the S&P and stocks, if you will, reflect that kind of thinking though? I don't really see that. I see the markets looking at a very modest earnings, recession, contracting margins, pricing that in forward versus what I think you're alluding to or saying is, that's going to be a little bit more significant than maybe market expectations so that you know, there's the mispricing or there's a mispricing?

Vincent: **00:43:33** Yeah, yeah. No, if you look at EPS expectation, I think it's 230 on the S&P 500 EPS. So, up 10% over the last year. And that's happening even though the top line is basically not growing. So, what analysts are telling you -- right now we have the top line growing at 10%, earnings at zero, and next year is the other way, right. The top line is going to be at zero and your EPS is going to be at 10%. So, what the market is telling is you're right it is that we'll see margins expand next year. I find that hard to believe. You know, labor costs a lot more, commodity -- energy costs a lot more, capital costs a lot more. So, I really don't see where you squeeze in that margin expansion. I think in a way the margin expansion we've seen this past year … the inflation. You know, when Keynes talks about it, it's like the inflation, like everyone at the beginning, "Oh, I'm richer. Yay, let me spend." And then everybody, "Whoa, whoa, I'm richer. Let me spend." And then … but actually everybody else is doing it.

So, you know, that was 2021 and you have good accounting reasons for that, right. I mean, you value in -- you know, if you have fast inflation, your inventories that you sell are valued at the old price. So, your earnings get boosted or the depreciation expense, you use the old price. But then when you have to replace the machine, costs twice as much, that depreciation expense still carries the ghost of the low prices. So, the first years of inflation, you do see an expansion in margin. But that is, I would argue, somewhat an illusion that will dissipate next year. So, yeah, my expectation is that margins are going to compress. And I'm not sure that companies are going to be able to make the workers pay for it. That's a traditional response, right? Every time we see EPS guidance negative, you see companies, okay, announcing layoffs. And you certainly see that in tech because tech is over staffed. But tech is a small sector of the economy. In the rest, companies are understaffed, they are still looking for workers, and they will -- there's literally labor hoarding going on. So, I think companies, contrary to 08 will not be able to squeeze the workers out of so that it can restore the profit margin.

Rodrigo: **00:46:04** Yeah. And when you look -- …

Mike: **00:46:05** Do you think -- Oh, go ahead, Rod.

Rodrigo: **00:46:06** So, just quickly, when you look at the PE expansion and compression during periods of low inflation to high inflation, you see that in periods of high inflation volatility that the -- like the Shiller PE in the 70s, Shiller PE in the 40s, and the early 20s, is much, much lower than when inflation is going down. Right? So, it leads all this uncertainty, uncertainty in cash flows. If we're going to be at 5%, this is going to vary by industry, and there's going to be less willingness to expand a company. So, all these things should lead to multiple compression, and we continue to be really, really high. We continue to see the economy or the stock market outpace the real economy. At which point are we going to see the economy -- Like, there's two things here, right? What you're saying is the economy is resilient. That doesn't mean the stock market may be. And at some point, we've had 10 years, if not 40 years of the stock market outpacing the economy. We might have to see 10 years of the economy outpacing the stock market.

Mike: **00:47:07** Yeah. And I think this brings to my mind something that -- We hear a lot about this onshoring aspect. And is that even possible given the circumstances? I know it's a great theory to say, okay, we're going to onshore, we need these sort of stable, resilient supply chains rather than sort of just in time cheap and cheerful supply chains. But is that even possible given the current labor dynamics? I don't know if this is actually a real thing? I hear it a lot. It makes sense to me. At the same time, the realities seem like that's not going to happen.

Vincent: **00:47:49** Yeah, I would share your skepticism. Because again, to me, the problem is the -- we're running out of kind of young, healthy workers that are willing to work hard for low pay, because of generational. You have one Gen Z entering the labor force per every two Boomers which retires. I mean, that's just the nature of the beast. Immigration has slowed to a trickle, we have these kind of 40% of US population is obese, we have anxiety, we have opioids. I think that the quality of the US workforce has been degrading for a very long time, and we've been able to hide it with Mexican workers where 12 million Mexican workers come between the *tequila crisis* of 1994 to 2007. And then relying on this global supply chain and workers in East Asia. But now that is -- it's like when the tide goes out, you see who's been swimming naked. I think that's what we're discovering.

And I mean, even if we could reshore everything, it would still be more expensive. Like, there is nothing that will be as productive as a billion Chinese workers with a currency working with a deeply undervalued yuan. You still have to pay your workers in dollars instead of artificially manipulated currency. And the first step is going to be to invest. Before you can reshore, you need to build infrastructure, you need to build a factory. So, it's almost the same argument as the energy transition, right? You have to spend more in order to save, possibly save later.

Rodrigo: **00:49:39** Yeah.

Mike: **00:49:40** I kind of agree and I mean, it makes a good story. But as you say, you'd have to build out all the infrastructure, build out those supply chains locally, which are going to be more expensive. And you're faced with a contracting labor force, and you're faced with a labor force that in the Gen Z sense, values more of this work-life balance. And it is not the workhorse of the Boomer or the Xer who does all the extra hours. These folks are just saying, hey, it's five o'clock, I'm going home, and whatever excess work needed to be done, that's your problem as the labor provider--

Rodrigo: **00:50:14** The onshoring is happening, it is going to be more expensive. I just see it as a story of inflation of this more secular, higher inflation for longer, right. And also the story that profit margins are going to collapse.

Mike:	**00:50:28**	It can happen, though. Like there's a flaw in the argument, it can happen. You just don't have the ability to, or there are challenges to it happening that I might think are underestimated.
Rodrigo:	**00:50:38**	If you're building for efficiency, you're right. If you're building for resilience, you might take the extra cost. And this is what, at least what I'm seeing, what I'm reading is that they are -- companies are onshoring for the sake of resiliency, that global economies are onshoring for sake of resiliency, and they're willing to take the extra cost of that Gen Zer and pay them the right amount. And also it's not that cut and dry. Like in Mexico, you can still -- right now with the aging population in China and the issues there, it's actually cheaper to manufacture in Mexico now than it is in China. And that's been a trend that's been going on for a few years, right. So, it's not clear to me that it's not going to happen and it's not doable.
Mike:	**00:51:20**	Well, you just faced hard limits, and the …
Rodrigo:	**00:51:24**	And hence the inflation, right? You just have to, like the market has to clear, if you're building for efficiency.
Mike:	**00:51:31**	Right. I think we're saying the same thing, it's -- you can want resiliency, but if you can't deliver it, you can't deliver it.
Rodrigo:	**00:51:39**	You can deliver it at a higher price, at a much higher price. Again, if you clear -- if you want that you're going to have to clear the market and pay higher wages, right? Middle America wins again. This is the possible solution, right?
Mike:	**00:51:51**	There are limits.
Rodrigo:	**00:51:52**	Sure, there will -- China will be a player again, it's not going to zero. But in certain industries, you might actually find that you need it, want it, for other reasons than efficiencies.
Mike:	**00:52:05**	Go ahead.
Vincent:	**00:52:06**	No, what we're ultimately saying here is productivity is going to take a hit. Right? I mean, we're moving from a very efficient, where we optimize everything. You look at the how you make a fan, right, yeah, that is -- I mean, it's amazing. So, global supply chain is something that's truly a wonder. Or how you make a computer. If you …, you break it down, like, well, now we're going to have to go back to maybe blocks competing with each other. Whatever it is, it is going to be a less efficient system and productivity. And by the way, productivity is already falling. If you look at labor cost, they're up by 8% year on year. 5% higher wages, 5% lower productivity.

And the implication, to me, is I think one of the problems with the kind of consensus view, that the economy is going to fund the recession and that inflation will follow. Honestly, on the recession I had, my view is that it's, you know, it's overblown, that whatever, it could happen. I could very well see -- I don't really want it to happen. We've never done so much tightening so quickly, we shrink the balance sheet. Like, maybe Mike Green is right. I mean, he's smart. So, maybe we see -- But the question is, will inflation follow? And the assumption behind the view that recession and inflation are linked is that you have constant productivity gains, right.

But if our case is right, let's say the economy shrinks by 2%, but productivity falls by 3%, you need 1% more workers to produce that smaller level of output, so your recession doesn't clear the labor market, it doesn't reset wages and you have and either stagflation or inflationary recession, which, to me, that is the bearish scenario. Like I'm more on the optimistic side. The optimistic side is kind of an inflationary soft landing, which is kind of my base case. But I still need to have a lot of respect for, I don't know the future, right? It could be that the economy falls, and then we'd have kind of a real recession, right. A recession where prices keep going up, wages keep going up, the unemployment rate remains at like 4%. And that's, in some ways, that's what we had in the 70s.

Mike: **00:54:22** Right, precisely. And this is when that labor costs circle starts to roll. It is extremely hard to attenuate, which then brings us back to the Fed's focus on that as a particular item that, you know, lagging or otherwise they're familiar with that cycle.

Vincent: **00:54:46** But that means you got to like slaughter the economy so much more to squeeze that inflation out, right. That means that to go back to 2% you have to create a depression. And I don't think the Fed wants -- anyone in their right mind will want to do that. There's this concept for economists called *R-star*, you know, the natural level of interest rate, which no one can observe, but every PhD can write their thesis on and get a job at the Fed for that; good for them. I would focus on *I-star*, the natural level of inflation, and I believe this *I-star* is not constant. And we're trying to box it with the 2% rule. And it was easy for us to do it because it had its structural disinflation for four years. So, if anything, we struggled to get to 2%. Right? There's a story of Europe and Japan, right. Because we had this tailwind of globalization, of China, of currency manipulation in East Asia, of Mexican workers going into the US, of global savings glut, federal democracy-- I mean, I can go down the list.

So, that means your *I-star*, if you will, fell from the late 70s when it was very high, because we had the boomers during the house inflation. Then it just fell from 1981 to 2018. And we had 2%. Now, I think your *I-star* is higher, it's four or 5%. And, sure, you can -- it's kind of, I don't know, if you ever diet, like your body has a natural weight, right? I know, for me, if I go under 85 kilos, it wants to get back there. There's nothing I can do. I think that's going to be the same thing with inflation. So, maybe we'll attempt to go down to 2%, but then we'll realize that the cost of doing so. And again, from a policy standpoint it's losing a degree of freedom, like why can't we use the price level as a variable of adjustment? I mean, the price level is a way that -- to me, it's a political decision. Like, a certain price level implies some political choices between the debtors and creditors, between the young and the old, between the working and non-working.

And what's right at a given time may not be right the next time. There are periods where you could justify a higher level of inflation if you have, for example, a young generation that's been, for example, after a war, right. You send only young men to die for the dreams of glory of old men, which is what wars usually are. After that you usually have higher inflation, because high inflation is friendly to the young because the young don't own assets, right. Inflation destroys the value of assets, so it makes assets relatively cheaper. So, you may want to rebalance -- I would view COVID as one of these events, where we basically sacrifice the youth, you're like, okay, sorry, you're going to lose two years of your life so that we reduce the death in nursing homes. And now the pandemic's swinging the other way and, again, it is a good thing, like a smart policy should be well, what was right then is longer right now.

Mike: **00:57:55** You're so right, Vincent. I think a light bulb just went off in my head. Why would you know, sort of 2% inflation from a, like a monetary sturdiness policy, like money is real, and it has value or it stores value. But we're going to degrade the value just a little bit over time. We want to keep the confidence in the money as a store of value, but we need to have this sort of delusionary effect. But then you've got this layer on top of that, which is well, what's the global economy like? Where are sources of labor? Where can we develop sources of labor and sources of opportunity? And we've been in a Goldilocks period prior to whatever the last year or two, where everything sort of went the direction of very low inflation, actually technological innovation, productivity, as you talked about, the global workforce, the beauty of the global supply chain.

We are in a very different set of circumstances now, very different market participants, their age, their demographics. So, why wouldn't we think about this inflationary target as being non-stationary? Why should it be 2% through 100 years or 50 years? Why shouldn't there be some level of understanding of the global economic dynamics that are at play in order to understand what the *I-star* should be, if you will, or that inflationary rate in order to accommodate the current global economic situation? I think that's a very significant insight. Now, you have to balance that off, obviously, against the confidence in money and as a store of value and those types of things. It's a really interesting point you make.

Vincent: **00:59:44**

Yeah. I mean, if you look at the distribution of growth plus inflation, what you'll see is okay, real growth is bad when you have deflation and it's bad when you have inflation above 10%. So, it's kind of a -- it's an N. But there's nothing special about 2%. If anything, in the US, growth on average, has been faster when you had 3-4% inflation rate. And I think that's something that most emerging market central banks know. That's why you see most emerging markets central bank inflation targets around 4-5% because they know that they're kind of poorer, and they need to play catch up.

And as they play catch up, wages in the non-tradable sector are going to -- tradable first and then non-tradable is going to increase and that's the …. side effect is the economic term for that. And that's okay. Like, during the high growth period, they told … in France, we have 5% inflation, all of Europe had it, you can make the case that inflation is a lubricant for growth, in some ways. To me, it's always easier to adjust the price than it is the quantity. And I think that's going to be the -- …

Rodrigo: **01:01:04**

I think that tends to breaks things. As a Latin American, I can tell you that what -- every country has different levels of inflation; 3% consistently, 5% consistently, Argentina 20% consistently. What really kills you is the rate of change. The aggressive rates of change is what create chaos. Right? We saw it this year, we saw that aggressive rate of change of inflation numbers, and therefore rates of interest lead to, in this case, bonds and equities going down together. Right? But if you have a steady state of 5%, you're right. I think -- I've seen it in my lifetime, people adjust.

Vincent: **01:01:38**

Chile is an example. Yeah, Chile, everything is inflation adjusted and it's been 3-4% for a long time. And that's fine. And then to me, the good thing is, I was -- the last time you had me on the podcast, I was a bit worried about things going out of control and … it was yet the worst, but that option is out now. You know, we're slowly going down to 4-5%. In a way, this was lucky, right? It could have gone the other way. It could've -- if China had reopened and oil prices had kept going to 200 and whatever, we could have had a situation like that Argentina had had. But luckily the dollar was very strong. We had this kind of lucky alignment of the stars. Honestly, it's the best case scenario where we are today. It may not feel like it, but at the end of the day, what we had is a negative shock, right? So, something's got to give.

Rodrigo: **01:02:39**

And it's feels like the best case scenario now, obviously. But I got to tell you, I'm terrified of the other side, right? So, I mean, it feels -- if indeed, they've done it and we're going to five and it's a soft landing, brilliant. I'm just really worried that this is kind of the eye in the middle of the storm, personally, right? What if we've tightened too much, and then we have to inflate again, and the rates of change that we experienced in the first three to four months of the year happened a few more times, it breaks stuff, right? It certainly has the likelihood of breaking stuff.

So, I'm not fully bought into the we've done it. I'm not ready to put my mission accomplished flag up.

Mike: **01:03:19** That also plays into the inflation volatility comment that you made earlier. Right now, asset prices are largely still reflecting a period that we had from sort of early 1990 to 2021, call it, where inflation volatility was significantly lower, allowing asset prices to be more stable in their earnings. Thus, you not having to discount back so much, because you had the confidence in that. And now I think we will have more inflation volatility more sort of similar to what we had from 1990 and before, where it was sort of two to three times higher just in the volatility around inflation, and its expectations and it's changing sort of manifestations and those changing. And I don't think asset prices really reflect that, certainly not equity asset prices, maybe bond asset price, the bond complex maybe reflects it more. But Vincent, you're tilting your head, but yeah, please elaborate for me, because if I'm wrong in that sort of assertion, which is a very loose one for me. I'd love to hear your thoughts.

Vincent: **01:04:26** No, the reason I was tilting is I think the bond market also tries that environment of stable growth, steady …. It doesn't care about the level, right? As long as the -- asset price is like the building. It doesn't really matter. You know, okay, give me bad, give me good, but just give me stable. And in the bond market you've seen the term payment being squeezed out over the past four years as a result of low economic volatility, right. That was a great moderation. And then after that it was full guidance. Oh, wow. The Fed is going tell me what it's going to do. Well, why should I be paid for holding long term when, you know, like, I have a dot plot? And then QE, of course or yield of control. So, we squeezed the other term.

So, and I think what I get from Rodrigo, and to your point is that needs to come back in some way, right? You need to work a term premium back into the curve. And the conclusion for me would be keeping … as a hedge for that. I think that the biggest risk in 2022, all of it was about pricing 500 basis point of tightening in the front, right? That was the big -- that's what drove the stock market down, the bond -- the story for 2022 will be on the long end. We had this historically inverted yield curve, like 80 basis points. I think it makes a lot of sense for -- to go into 2023 with a yield curve …, which, by the way, is something that will work in both scenarios, both Mike Green, and I don't want -- I'm not putting myself on a call with Mike Green and Greg Jensen, okay.

These people are a lot more accomplished than I am. But the Vincent and the Greg … If we have the Mike Green, Greg Jensen, Bridgewater scenario, what you'll see are the Fed has made a horrible mistake, and they're going to get back to zero or even negative. And you'll get a kind of bullish, like kind of what we had after the internet bubble, right? Where the front end falls from five to 1%. If we had my scenario, we have the bearish …, where the front end stays at 5%, but the long end moves back to five and maybe even above as we price ….

Rodrigo: **01:06:43** Yeah. So, it's interesting, because it's -- the big fear and the big confusion this year has been for many allocators, especially advisors and investors, is unprecedented correlation between equities and bonds. Right? And now it's funny because --

Vincent: **01:06:58** Not unprecedented, no, no.

Rodrigo: **01:07:00** Yeah, I know, totally, 100% just, it's what they've ever experienced in their lifetime, right. Which is very different than understanding history and making sure you understand the relationship between those two. What's interesting now is that they've internalized it and they're like, well, equities and bonds move together. Whereas I think the likely future is going to be equities and bonds acting more non-correlated than ever, in the next six to 12 months and back to normal, right, if we do see any sort of steepening, any sort of rate of change to the downside of rates. Especially if we find that regardless how strong the economy is, if we see multiple compression and equity markets going down, you might see bond markets taking the opposite side and providing some protection again. So, those are kind of an interesting observation. The question --

Mike: **01:07:50** Well, I think those are -- it's a secular difference with a cyclical, sort of secular difference is one of the opposite direction and there will be cyclical reverberations that are much like the past, like the previous sort of 30 years, 40 years, if you will.

Vincent: **01:08:05** One thing I'll add to that is I also with, we've built the capital markets around the notion that stocks and bonds, especially Treasuries are negatively correlated, and we have entire strategies that can do that, right, risk parity, or even a target date fund. You know, if my stocks underperform my bonds, I'm going to sell my bonds, buy stock. So, we built in some negative correlation from flows in the system. And I think that's one of the reasons why not -- because at this level of inflation, you should see stocks and bonds have a 50% correlation, historically, that that's what it's seen. It's closer to like 7-8%. And I think that's in large part because you still have this automated rebalancing from one asset to the other that will keep the old regime, even though it has outlasted its economic purpose.

Rodrigo: **01:08:58** Interesting, very interesting.

Mike: **01:09:00** Yeah, there's the other part too, with higher rates, you also have a higher discount rate on all the pension liabilities. So, those actually dropped dramatically in funding of corporations where they're funding sort of defined benefit type plans, which is another interesting benefit. Now, we don't we don't have as many defined benefit plans as we used to, and their predominant in different geographical regions. But trying to plan or to provide for someone's retirement at an average duration at zero or 0.5% rates, is extremely expensive versus 5% as an example.

Vincent: **01:09:41** And brings me back to my point that rate hikes are not as nasty as -- well, I mean, they changed the ordering of cash flow, they changed the distribution of cash flow over time, but there is no -- they change a relative price level, but they don't necessarily make -- you know, I think we overestimate the extent to which rate … an economic stimulus. And we've certainly seen that. I mean, if rates get worse like Japan and Switzerland would be, I guess 15% GDP growth in the past decade and they have not, right. And … we kind of overestimate the extent to which rate hikes slow economic activity. You know, they just, to me, rates just set the relative value of financial assets, which is real assets. They change the duration profile, they benefit people who are short duration, hurt people who are long duration, but it's all transfers. There's no wealth being created or destroyed by playing with the level of interest rates.

Mike: **01:10:48** It sort of reallocates who the potential beneficiaries are.

Vincent: **01:10:52** Yes, yes. And in the case of pension funds, again, we cannot go back to my idea that we are on a road to nowhere, right. I mean, you look at the European pension fund sector, I mean, what is the alternative? It's like, yeah, being your average German pension fund, which is 80% invested in stuff that yields negative. I mean, how long can we buys negative yielding bonds, and hope that further rate cuts, will -- yield is going to get more negative, so that some idiot is going to pay an even higher price for this bond that kills, destroys wealth over time. I mean, there was no -- You need the system to reset if people are going to retire. And sure, there's going to be a loss, right? I mean, that's what we saw in the UK. Like, whoever's holding the bag of all these negative yielding bonds as they reprice is going to take the hit. I think, at the end of the day, most of these central banks. So, when central banks have an infinite capacity to absorb losses. So, the name of the game, I think is kind of what Japan does is you need to move all the crappy overvalued negative yielding bonds on the central bank's balance sheet as you do this process.

Mike: **01:12:09** And that shares the pain across the geographic global nature of that country, that economic unit, which is a country and interesting, and it bares that, I suppose bares those losses and can spread them out over a longer period of time.

Rodrigo: **01:12:25** I mean, look at this is -- we can have an hour-long conversation about nominal versus real and what all that means when you're actually in a disinflationary or deflationary environment and rates are negative. But that can take an hour and I still haven't disentangled it myself. Just out of -- I want to, based on history, and I haven't done enough work on this yet, is what tends to happen, because I think I have a view on the equity markets, a view on the bond market. The question is what happens to commodities from here, right? So, certainly, if we peaked inflation, there's going to be a period of adjustment, but once we hit that constant state 5%, what does that mean for, historically, -- I don't know if you know this answer, Vince. But what has that meant for commodity prices over time in a steady state inflationary environment?

Vincent: **01:13:24** Let me just focus on all else equal, how is 4.5 different from two? I think it reduces the duration of investment like -- right? That's what inflation does, right? All else equal, I want to consume now more so than -- so, I think that's commodity bullish because commodities have zero duration, right. So, it revalues I think, higher level of inflation, all else equal, increase the relative value of zero duration assets versus long duration assets like houses, like bonds, like stocks. Structurally, I think it's commodity bullish.

And the second part to that it's commodity bullish is then if you are in a high, inflation environment, your main risk is that an inflation gets higher, right, so that's what you lose sleep over. And the way you hedge that is by having commodities, so almost a portfolio demand for commodities that did not exist in a world where inflation was contained and when your hedge was long-term treasuries. So, to me, both of that points to higher, which is generally the experience, right? When you have high inflation, commodity prices are higher. There's a chicken and egg part to this I understand. But I think you can, even without taking a …, you can find arguments that support high commodity prices.

Rodrigo: **01:14:59** Look, this is -- I always have love having these conversations, Vincent. I mean, we are not -- none of what we do, say here actually has anything to do with our systematic strategies. This is why I love the intellectual discussion. Timing is always tough. So, the risk parity has that commodity, bond and equity component, they balance each other off, and then you have this systematic macro that can make the bet short-term. So, I'm so glad that I have that, because it's a treacherous world out there. And there's so many things that can play out in the next 18 months. But it certainly helps frame how important it is to have a diversified portfolio that includes these hedges, right? Whether we're talking about a sophisticated *steepener* or adding commodities to your portfolio or adding some active strategies to your portfolio. I mean, when we met, it's almost a year ago, maybe. No. Yeah, no, maybe less than a year we're talking about, yeah, we were talking about Peru is a great hedge and Peru's up 20% in the first three months of the year.

Vincent: **01:16:06** Do you have a president though? How is that going?

Rodrigo: **01:16:09** You are the one, by the way, I want to give you kudos to this. I remember in our conversation talking about how I'm like I'm sick and tired about -- that we're constantly turning over our presidents then. And it's got to be bad for investing in Peru. And you said to me something that was very interesting, which was no, no, no Peru's got a very strong constitution. And it's built in such a way that it doesn't matter how stupid your president is, the constitution protects the companies enough and the people there enough that they can't screw it up. and like, Donald Trump couldn't screw up the US, probably due to the fact that the US wrote the Peruvian constitution with Fujimori in the early 90s. Right? And that's exactly what happened in a single day.

For those who haven't heard, in a single day, you know, Fujimori in 1990, dissolved the government because our constitution allowed for that and it was just a disaster and it happened. He got a new constitution with the help of the United States, rebuilt the economy, and since then it's grown at 7% a year. This guy, this new president, doesn't understand how the constitution is built, or who and what their allies were. I don't know where he got this idea of trying to dissolve the constitution, write a new constitution -- dissolve the Congress and write a new constitution. That happened and within a few hours, the Congress got together, they threw him out. And because what he did was seen as a mutinous action, he got arrested, and is now in jail. I mean, you can't …

Vincent: **01:17:34** I think he should run for -- he should run the UK now. Take the job opening there.

Rodrigo: **01:17:45** Exactly. Look, there's opportunities now. But I think the takeaway I want people to have from these conversations are that there are opportunities and risks out there that just, it's just not, in my view anyway, a traditional buy and hold 60/40. We've seen the pain of that, I hope people recognize that there's -- you can hedge in many ways, you can look out there and actually take some active views, whether it's systematic or otherwise. You know, I think the Peru bet which is the ETF is out there that you can get direct access. It was great. It was like it was up, it was down, it's kind of flat for the year, pretty much what you would have expected in a year like this. So, really appreciate your insights here, Vince. And, yeah, we just need to be more open minded than ever, certainly more than we have in the last 10 years as broad investors.

Mike: **01:18:37** Yeah. Awesome.

Rodrigo: **01:18:39** All right. Well, thanks, Vince for coming on.

Mike: **01:18:40** Well, before we go, just Vincent where all your -- like, what are your -- where can people find you? I know we provided your title that you're the director of Global Macro Strategy at StoneX. But you also have a Twitter page and LinkedIn page or where else can people find you and tune in?

Vincent: **01:19:00** Yeah. No, Twitter is really the best place. Vincent Deluard, just my first name and my last name. You know, great place for conversation. If you look at my Fin tweets there's a link so that people can sign up for a free trial. Right now I'm speaking at the StoneX conference day, so I want to apologize for the background, which is a miserable hotel room by Central Park, which I paid close to $1,000 because inflation is just crazy. And I'm doing this on my phone. Usually, I'm more professional than that. But yes, StoneX is a big global financial services firm, very active in commodities, currency. So, that's another way is you can just trade with us. And I mean, if you're already trading with us, ask your reps to get added to my distribution list and if not, check us out. We are growing. We got great stocks.

Mike:	**01:20:04**	Fantastic and thank you again.
Rodrigo:	**01:20:07**	Awesome, Vince. Very entertaining as usual. Thank you so much.
Vincent:	**01:20:10**	My pleasure. See you soon.