THE GRANT WILLIAMS PODCAST

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The Super Terrific Happy Hour: Episode 9

Featuring David Rosenberg

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The Grant Williams Podcast, including The End Game, *The Super Terrific Happy Hour* and *The Narrative Game* represents the Copper Tier of grant-williams.com and serves as a prelude to *Things That Make You Go Hmmm…*, Grant's monthly newsletter which, over the past decade has become one of the most widely-read financial publications in the world.

Blending history, humour and keen financial insight, Grant dissects the financial landscape with thought-provoking commentary—taking readers in unexpected directions and opening up investment avenues away from the beaten path which stimulate the kind of original thinking so lacking in today's financial media.

Drawing on Grant's extraordinary network of experts around the world, *Things That Make You Go Hmmm…* weaves together a tapestry of insight and information, folding in a series of under-the-radar stories and perspectives, to give subscribers an important edge in a fast-changing world.

Copper Tier subscribers can find out what the fuss is all about by upgrading to our Silver Tier!

Stephanie and Grant welcome David Rosenberg of Rosenberg Research to The Super Terrific Happy Hour for a fun-filled conversation about the disconnect between the economy and risk assets, the probability Rosie places on the return of significant inflation and much, much more.

From the negligible likely impact of the supposed positives of Covid life on overall GDP to the importance of having robust econometric models and understanding the dramatic changes to spending and saving habits by U.S. consumers, Rosie offers a masterful breakdown of the most important factors to be considered when assessing where we go from here.

It looks as though Q3 is setting up to be a very, very important watershed...

Grant Williams:
Before we begin, a quick reminder. This edition of *The Super Terrific Happy Hour* is the final free episode of this podcast. Beginning February 1st, *The Grant Williams Podcast* will become part of the copper membership tier of my new website, grant-williams.com. Now the copper tier will include every future episode of *The End Game*, *The Super Terrific Happy Hour*, and *The Narrative Game*, as well as access to a series of special one-on-one conversations I'll be having with a group of truly extraordinary people throughout the rest of this year, beginning with my dear friend and mentor, Anthony Deden of Edelweiss Holdings.

Grant Williams:
At the site, you'll also find a silver tier, which in addition to access to *The Grant Williams Podcast* will include a year subscription to my monthly newsletter, *Things That Make You Go Hmmm...* But you can find out a lot more about all that by visiting grant-williams.com. Here's the bit where I remind you that nothing we discuss during *The Super Terrific Happy Hour* should be considered as investment advice. This conversation is for informational and hopefully entertainment purposes only. So, while we hope you find it both informative and entertaining, to say nothing of super and terrific of course, please do your own research or speak to a financial advisor before putting a dime of your money into these crazy markets. And now, on with the show.

Grant Williams:
Welcome everybody to another edition of The Super Terrific Happy Hour. Joining me as always to make it all those things is the delightful Stephanie Pomboy. Steph, hi.

Stephanie Pomboy:
Hello.

Grant Williams:
Hello. How are you?

Stephanie Pomboy:
I'm great. How about you?

Grant Williams:
Not too bad. I was going to wish you a happy new year, but I think ... I don't know what the cutoff is. There will be a cutoff.

Stephanie Pomboy:
Well, since it's the first time we've convened in the new year, I think it's okay.

Grant Williams:
Okay. Well, let's just do it. Happy new year to you.

Stephanie Pomboy:
Happy new year to you as well, sir.

Grant Williams:
Yes, indeed. Now, we have another special guest joining us today who is a dear friend of both of ours and always someone that is just so much fun to talk to and so much fun to listen to, and that's the one and only David Rosenberg. I mean, you've known Rosie longer than I have, I think.

Stephanie Pomboy:
I don't know. It's funny. I've only met him once, and yet-

Grant Williams:
No way.

Stephanie Pomboy:
Yeah. We seem like two bears passing in the forest, if I can strain that analogy, but yeah it's funny because every time I read him quoted somewhere or hear an interview with him I think, that sounds exactly like what I would say.

Grant Williams:
Yeah, exactly right.

Stephanie Pomboy:
And he says the same thing for me, so I'm really looking forward to connecting with him.

Grant Williams:
Well, this is going to probably be an hour of pure solid gold confirmation bias, but we'll try and keep it as interesting as we can. And so let's stop nattering you and I, and welcome Rosie to the show.

Stephanie Pomboy:
Let's do it.

Grant Williams:
So I mean look, the three of us together, as you said, the three bears, we don't have a Goldilocks here. Steph, you should probably play that role, I guess, if we were going to cast it. But I think the one thing that all three of us have kind of sat here scratching our heads about for the last, what? Well almost a year coming up now, is just this disconnect between the economy and the markets.

Grant Williams:
And Rosie, some of the stuff you've been tweeting, I mean I'm just sitting here just going, "This. This," but what's the reaction been to that stuff when you put it out? Because it seems so clear, but I guess you're getting the usual pushback from people?

David Rosenberg:
Not as much as I would have thought. There's been some. I actually when I tweet, I get a lot more hate mail responses when I tweet. I would say that I've had a couple, a couple of really sharp zings like how you've missed it and at what point are you going to turn more bullish. But I'll tell you that, I mean, there's some of that, but nothing like I had when I was at Merrill or even at Gluskin. But I think that it's just more that people who subscribe to me know what they're going to get. That they're not going to get happy-go-lucky. I mean, if they want to go ... There's so many other people out there that have a bullish narrative.

David Rosenberg:
So for a lot of people, even though they don't agree with me, I'm like their brake lights or their left tail, basically what's the other side of the story? So that's always been good. People say to me, being quotes the perma-bear, which isn't really true, but it's a moniker. But there's very few perma-bears. I mean, what, me, maybe Stephanie, Jeremy Grantham, and who else? I mean, so there's ... So actually, you can carve out a nice little career just by being a contrarian.

Stephanie Pomboy:
Well and also, as you and I talked about, this perma-bear label is very, very narrow. It relates strictly to equities. We've been rip snorting bullish on treasuries, and that has been phenomenal over that entire stretch, but you get zero credit for that. All anyone cares about is whether you're long tick.

David Rosenberg:
Treasuries and gold, they're the enemy.

Grant Williams:
Yeah.

Stephanie Pomboy:
Well, that's a great starting point because I think right now what's going to happen with the treasury market has to be the main question for stocks, don't you think? I mean, how high can yields get before the stock market really gets brought to its knees?

David Rosenberg:
Well, I mean there's a whole bunch of things that could happen that don't have to relate to what happens with bond yields. And one of them is, the markets are priced in a very rosy second half of the year, so

there's a lot of assumptions. I mean look, we've already backed up 60 basis points. Somebody could say, we would be back another 60 basis points, and they try and do some arithmetic, but nobody has a clear handle on what the real ... What is the multiple you put on the stock market, and what is the appropriate multiple, and everybody does their analysis on the earnings yield and the treasury yield.

David Rosenberg:
But look, I think that ... I did some analysis on this just looking at how, and we have $15 trillion of US debt in total refinancing this year, so I would say that if you probably backed up, even if you normalized interest rates, normalized being that you went back to where we were before the pandemic, looking at the amount of debt servicing that would come out of the economy, I'd say if you went up 100 basis points, that would be big trouble. But even going up 50 would take you below potential and create more excess capacity in the economy. So, even if you didn't get a recession, it would feel like one.

Stephanie Pomboy:
Well, we've added 5 trillion in debt from the pre-pandemic. So the level of rates, one presumes, that would be required to inflict damage now is lower than it was before.

David Rosenberg:
Yeah, exactly. Well, I mean you could see that. It's just a matter ... I mean, I was looking more, because a lot of companies termed out their debt and then refinanced. So otherwise, but still the volume of debt as a share of GDP that's being refinanced in the coming year is like triple what it was three decades ago. So yeah. And so that's what's happened with the... The reason why every single industry cycle in the past 40 years has been truncated is because of the fact that you have this massive volume of debt that takes incrementally smaller increases in rates to push the economy over or to create a panic attack in the stock market.

David Rosenberg:
I mean, whoever thought that we'd get to now barely 2-1/2% of the funds rate to create the conditions for that draw down we had in the fourth quarter of 2018. There was a template right there. So anyway yeah, I mean, I've been starting to know that there's a whole bunch of things that could happen. It could be rates. I mean, look I'm still bullish on treasuries, but we had... I was bullish on treasuries from '09 to 2019. And when you add up all the sell off days, we have 5,000 basis points of increase. So mind you, we still went from like three and a half down to two, but there was some periods, several quarters, where reels were backing up. And I guess that what you would say is from a fund flow perspective is that if we get 900 billion than 1.9 trillion, that's 2.8 trillion right there.

David Rosenberg:
And the Fed's talking about tapering. So who's going to show up at the auctions. That's the question. If the Fed's is not going to be there, at least in the secondary market, who's going to show up. So that means that is an interest rate risk is more from the supply side, because I'm not a big believer that we're going to get big inflation. But the market, you see things that you and I can have our particular view on inflation and be right over a period of time, but then inflation expectations rise anyway. So I guess it would be something that inflation expectations continue to accelerate that causes bond yields to ratchet up. And it's hard to know what the cutoff point is or what the overshoot would be for the economy, but I'd say that anything more than 100 basis points over where we are right now would be some would be some big trouble.

Grant Williams:
Rosie, is the municipal inflation deflation debate, is that the key thing that people need to get right? Because that's kind of going to be a secular change that we get in the markets that will eventually see Domino's topple, or are we not at that point yet? Because guys like Lacy Hunt are still firmly on the deflation train, Russell Napier has hopped off the deflation train and actually jumped aggressively onto the inflation train. Do you think that's the key thing to get right here or are we not quite there yet where it's that important?

David Rosenberg:
Well, look, there's a few debates. One of them obviously is do we get the big second half economic rebound or not? That's in the market. What life actually is going to look like once the pandemic is fully in the rear view mirror, I mean, that's another debate. Are we going back to normal or what sort of normal are we going to go back to? And of course the inflation deflation debate is a critical one because that will be at the root as to whether or not this value trade and the stock market becomes a value trend because the value trade needs to have accelerating inflation, rising yields, a steepening yield curve. That's what the value trade needs to move into a trend.

David Rosenberg:
So look, I would just say that you can almost dust off your slide package from 12 years ago. The same people calling for inflation now were calling for inflation back then. They're the ones that have to answer as to why it is that inflation on the final analysis even with a stock market that quintupled, and even with a bull market and commodities, and even with 3-1/2% unemployment, we never did get the big inflation. So they'd have to come and explain why all of a sudden we're going to get the inflation in the coming cycle that we couldn't get in the previous, not just one, not just two, but the previous three cycles.

Stephanie Pomboy:
What worries me about it is that I totally agree with you on those forces of deflation or disinflationary forces that are clearly evidenced over that whole period, as you mentioned no wells effect, fueling inflation, et cetera. But that doesn't preclude people from getting all hot and bothered and getting chinned up on an inflation scare. They see the dollar going down, they see import prices going up and they assume, okay, well, that's going to lead to CPI inflation, never mind that as you point out it didn't for the last decade or even longer, but what is the possibility?

Stephanie Pomboy:
I mean, when I look on Twitter and other financial media outlets, it seems like this is, everyone's basically assuming you're going to see a real increase in headline inflation. And then they point to the fact that the Fed is encouraging that is just prima facie evidence that it's going to happen just because the Fed wants it to happen Therefore it will happen because God knows they get everything right. Do you worry about an inflation scare? Or do you think that anything like that will be quickly undone?

David Rosenberg:
Well, look trying to predict an inflation scare you could argue that we're living through it already. The tips break evens from where they were in the spring have come a long way, and now they're above 2% and you could debate as to whether or not... I mean, I don't so much a scare, but everybody's talking about inflation. That the narrative right now was filled with inflation. But I remember that in the same stage back in 2010,

2011, we had a very similar debate.

David Rosenberg:
Does an inflation scare, scare me? No, because if we get an inflation scare, I'll be able to tell clients that this is a great buying opportunity in the bond market of bonds sell off. Sell of nothing moves in a straight line. Can we get a further hiccup further spasm, eh, it's quite possible. I don't think people like you and I Stephanie are in the business of telling people the daily wiggles and the scare.

Stephanie Pomboy:
Right.

David Rosenberg:
You get the scared, then it's up to you and I to determine is the scare justified or not? Are we in a new inflationary environment? Or is the market mispriced against the future as you and I see it? And so I would just say that what are the conditions that are going to create that inflation. People point to the money supply. I get it. But the reality is that money velocity has declined a tit for tat with the run-up and money supply. We still have contracting money velocity. Why is that? And the answer for that is because we have declining commercial bank credit. We have this is one of the most important things from the New York Fed was their finding that three quarters of the stimulus checks are going into savings or debt pay down.

David Rosenberg:
And you see the end of the day though, we have the most unpatriotic development you could ever think of, which is that Americans have paid down their credit card balances at a 14% annual rate over the past six months. It's never happened before. And so it's very difficult to get inflation when there's no credit creation, which is what the money velocity numbers are telling you, or where there's no significant wage growth. Where's the wage growth going to come from? It's very interesting that the same people that tell you about inflation are so bulled up on the economic outlook, they believe that full employment is still somewhere at or below 4%.

David Rosenberg:
And of course the Fed's forecast is that the next few years we're going to get back to that magical level below 4%. But let's just say that we have a situation where one in eight Americans are either unemployed or underemployed. There's still tremendous idle capacity in the labor market. We have a capacity realization rate in industry that's around 74%. We're nowhere near the conditions. In terms of the capacity pressures in the economy, that's going to lead to a sustained increase in inflation. It doesn't mean that you don't get some temporary periods of pass through in the goods producing side from commodities in the weaker dollar, but that's not lasting inflation.

David Rosenberg:
This is a service sector economy. Services are three to four times more important than goods. I mean, we are no longer the Davy Crockett, Paul Bunyan economy of two centuries ago. This is a service sector driven economy. And service sector is in disinflation or deflation mode. But I come at it really from a top-down perspective on inflation. I look at the quantity theory of money, the Fisherian identity, because when push comes to shove, inflation is an accounting identity. It's not complicated. MV=PY. So you have M is running at say 25%. You have V is running at -20%. You might have a real growth of say 3%. Where's the inflation

out of that? It's negligible.

David Rosenberg:
And so I look at it from that perspective. I look at it from an accounting identity because you're trying to forecast a price level, or a change in the price level. And then on top of that, I look at the spirit capacity in the economy and we have an output gap right now. We have an output gap that's as big as it was in the fourth quarter of 2008. What's interesting is that in the fourth quarter 2008, we weren't talking about inflation, because of course we just came off the Lehman and AIG collapse, but look how long it took. It took six years before we even got any cyclical inflation, and then that didn't even last very long.

David Rosenberg:
So look, at some point you can build a framework where productivity is abysmal. We've had scarring and impairment in the labor market. So that potential GDP growth is down to 0.5 or 1%. And we come out of this pandemic and demand could be 3%. And all of a sudden the output gap is basically gone by the end of next year. That's quite possible. I'm going to keep an open mind. So you got to take a look at both what aggregate supply and aggregate demand are doing and the interaction between those two curves. So I'm watching it closely. But no I'm not in the camp that believes inflation is coming back anytime soon.

David Rosenberg:
And I'm not convinced that it would be come back at all because of the learning lesson of the last cycle. And the reality is that if people want to talk about going back to some normal, going back reverting to the norm, well, what was the norm of the past 10 years? Even with the quintupling of the stock market in the real economy, what was the weakest 10 year cycle for growth on record. By the way that includes the rebound we had in the 1930s. So low growth, low inflation, low interest rates. When people talk about, I want to revert to the norm, well, that was the norm. That was the norm.

David Rosenberg:
Low growth, low inflation, low interest rates in the context of a trillion dollar deficit heading into 2020, a 3-1/2% unemployment, a five fold increase in the stock market, booming commodity prices. And we went into this thing with core inflation, barely above 2%, depending on how you measure it. And so I quote Billy Joel, when I say, "Is that all you get for your money?"

Grant Williams:
Yeah. Rosie it's funny the phrase, the norm has come up already half a dozen times in this conversation. And that's something I want to talk about because when people talk about normalizing rates back to pre pandemic, I mean, they're still give or take 5,000 year lows. So what kind of norm does it need for this market to either stay where it is or continue to grow? Because any kind of normal scenario that the three of us, well, the two of us, Steph's obviously much younger, but the two of us have had multiple decades of experience.

Grant Williams:
And we've sort of seen what a normal looks to us, and we've read enough financial history to have an understanding of what a general norm should be way, way away from that right now. So what kind of norm does the market need to really not fall over, to sustain this current seemingly unsustainable dynamic?

David Rosenberg:
Well, a part of this dynamic as well you talked about before which was interest rates and central bank policy. So look, we're in a financial world that we've never seen before, where we have a $17 trillion not too long ago was 18 trillion. Well, just a few years ago, it was 14 trillion, but we have $17 trillion of bonds globally trading with a negative yield. How do you value assets in that environment? We have a situation where the central bank manipulation. I mean, we've got a situation where the Fed came in. Now this a situation a decade ago where Bernanke is buying duration, high quality assets.

David Rosenberg:
Now they're buying CMBS, they're buying corporate credit, they're buying high yield. The ECB has gone way beyond just bailing up profit. Good governments like Greece they're bailing out the commercial real estate market by buying covered bonds into their portfolio. But the point I'm making broadly speaking is this, what does it mean when the average 10 year yield in the industrialized world is zero? Where a third of the fixed income market trades negative. So you have a situation where the central banks have taken over in the sense that they have destroyed one of the basic tenants of investing and valuations of asset classes per pension fund managers, which is that they have destroyed the capital asset pricing model.

David Rosenberg:
They have basically created a condition where the discount rate has converged on the equity risk premium as zero. So no matter where you look, I mean, we talk about the stock market, but we have a situation now where the high yield market has got a four handle. It's neither high nor is it yield. And situations where last year in the spring you had the investors buying Hertz's stock after it went into bankruptcy. I mean, we have the Ivory Coast issuing a 10 year note oversubscribed while it's still at an IMF program. So I'll tell you, you mentioned before, look, I've been in the business 35 years. I've never seen anything like this.

David Rosenberg:
And yet the markets and the economy have become totally divorced from each other. And it's hard to pinpoint at what point reality is going to set into the financial mania that we have. What I could say as an economist is that over and beyond all the machinations and all the manipulations by the central bank to remove any semblance of transparency in the markets or attempts to assess and evaluate intrinsic value, the market has laid down it's cards that it is expecting a significant recovery starting in the third quarter.

David Rosenberg:
That, so it's absolutely critical, the speed at which the vaccines get distributed against what's happening in the backdrop of the infections that are still problematic. There's that race between those two. But the market believes that we'll all get the broad immunity by the third quarter. And then we're going to get stuffed to the gills with even more fiscal stimulus, which the central banks will accommodate. So I say anything that upsets that applecart, anything that I would say causes analysts in the equity market to start trimming instead of raising their earnings estimates, that to me is going to be critical-

Grant Williams:
Well, what was that word analyst? I never heard of that before.

David Rosenberg:
When the market itself... Well, the thing is that maybe the analyst will be a lagging indicator. But when the

markets start to sense that... When the earnings revisions ratios, which are actually are helpful, start to go the other direction, that'll be a meaningful sign. I don't know, Grant, if that is an interest rate call. See, the thing is that I made my life outta being a contrarian. Everybody believes that's what is going to upset the applecart is interest rates, but what are you going to tell me? You going to tell me it was interest rates that upset the applecart for the tech bubble bursting in 2000?

David Rosenberg:
It was really, you know what? I'll tell you what it was. As soon as Cisco systems missed by a penny on the other side, and people started realizing what to take our numbers down, that's when things started to unravel. People have to understand that the stock market and interest rates can go down at the same time. That was a classic example of that. So really it's going to come down to, that there's just too much growth being priced in right now.

Stephanie Pomboy:
Doesn't that bring you back? It does me anyway, to the inflation question in that you're seeing all this input price pressure from commodities and import prices. And I happen to doubt the ability to pass them on, which suggests to me, you're going to have major margin pressure that is nowhere reflected in those earnings estimates that you're talking about. And to me, that's the risk to the earnings estimate.

Stephanie Pomboy:
It's not even whether the vaccine doesn't get broadly distributed and consumers don't spend the money, it's that everyone's assuming the inflation pressures are going to go through the pipeline and they could well get trapped to the detriment of those margins. How do you weigh that versus the vaccine? I mean, is that since you see that inflation, the little inflation we're having being passed through, or do you think that's a secondary issue and the primary issue is going to be really the vaccine distribution and how it affects the economy in the third quarter?

David Rosenberg:
Right. Well, look we got the Fed space book a couple of weeks ago, and it was replete with examples of companies having difficulty in passing on all those raw material cost increases. Of course, there's also the impact on import prices from the weaker dollar. That much is true. And somebody could go back and say, well, so these companies can't pass it all on. So it'll show up in margins, but even if they pass on a fraction, that's going to show up and final inflation. I mean, fine. I don't disagree with that. When you're talking about an inflation, it's a complex backdrop.

David Rosenberg:
I mean, in a deflationary environment, not everything is going down at the same time, and in an inflation environment, not everything is going up at the same time. So you're talking about thousands, hundreds of thousands of goods and services that go into these indices. Now, so there's some areas that might go up, and there'll be others that go down. That the problem with people that I talk to, people I talk to say about that, let's talk about the CPI. So they just don't know. They don't know what goes in it. I talked to people and that aren't economists, and I don't mean to be rude when they talk to me about inflation, but I guess I'm being a little bit rude because I say to them, "Well, show me your model." Well, of course they don't have a model.

David Rosenberg:
So it's just basically just parroting back stuff they might've heard on TV or from somebody else to some report. And it's all about inflation, they hear about the money supply. The reality is that you have your Bloomberg terminal open, oh, look at the CRB index. I'll look at the Baltic dry shipping index. So there's got to be inflation, but you see the thing as I was saying earlier, is that what is the most dominant component of the CPI? And indeed the core CPI?

Stephanie Pomboy:
Shelter.

David Rosenberg:
Oh yeah shelter rents, rents. And rents are disinflating fast, and we haven't seen the full impact of it yet. The vacancy rates in the multi-family space, the multi-family I mean, everybody talks about the bull market and housing. Look at the multi-family stats we had in December. I mean, they're cratering. And we're seeing that supply response because demand has been under severe downward pressure. Vacancies are going up, rents are going down, and 30% of the CPR, your rents, whether you like it or not 30% of the CPR rents and 40% of the core is rents. So yeah, I get it. I know.

David Rosenberg:
I know what copper and nickel are doing, but I've never seen anybody to this day walking down the aisles of Walmart or Target and looking for the pound of copper. I just haven't seen that. And then when you're taking a look, look what's happened with tuition, demand for education and maybe there's been more permanent impairment coming out of the pandemic. People say to me, well, tuition, tuition, tuition. You're looking at the rear view mirror-

Stephanie Pomboy:
Right [crosstalk 00:30:00].

David Rosenberg:
... big time. I mean, all these services, and it's not just basically people saying to me, "Well, airlines will come back and restaurants will start getting pricing pressure," but they're small components, healthcare inflation people talk... And the thing is that I have to show them the data. I have to show them the data that healthcare inflation is in rampant. This inflation mode, tuition's education, rampant, disinflation mode. Everybody is living in the old paradigm. These things are disinflating and they're huge chunks of the consumer price index. And then you have rents which are dominating.

David Rosenberg:
But you need a heck of a lot of auto inflation, and furniture inflation, and holding and appliance to make up for these big chunks of services that are disinflating. Now that's just looking at it from a bean count perspective. Look, Stephanie, we both know that the year over year numbers cause the base effects, the year of year numbers are going to be going up on inflation, headline core. And all the inflation polls we'll be out looking at the year over year numbers. And of course it's just it's statistical artifact. But the point basically is this. You have to have a supply and demand framework.

David Rosenberg:

I mean, people want to listen to economists not just because we're a bunch of fun loving people, and we have great senses of humor, but that the first thing we learned in economics is Stephanie's we learned how to draw a supply and demand curves. And everybody wants to talk to the economists because everybody wants to know the price of something. Commercial real estate, residential real estate, that could be the equity market, could be commodities, could be gold, but we get trained on drawing supply and demand curves from the time we were young pups, we have to get the shape of the curves right, the elasticities, we have to get the direction of the curves right.

David Rosenberg:
But ultimately the intersection gives you the price. So if you don't have an aggregate demand, aggregate supply framework, and you're talking about inflation, and that's when I say to people, what's your model? I don't want to sound arrogant when I say it, but the reality is that you have to have an aggregate demand, aggregate supply framework. And that's when I always come back to the output gap and the level of pressure on the economy, the gap between demand and supply. Even if I'm wrong, and the gap was going to pose earlier than expected, it's still going to be a couple of years down the road, or it might even be longer. But that's where I come at it.

David Rosenberg:
And that's where I have to convince people is that, yes, we can get pockets of inflation. It's not going to be a straight line. And we had pockets of inflation in the last cycle. Last cycle core inflation bottomed at around .5, we got above two. Next thing we're below two. And then we're going to have another negative. Does anybody think of the pandemic was the only negative shock that we're going to have. We're prone to negative shocks, whether they're endogenous or exogenous. And the starting point of inflation is so low. People have... And that's the one thing I don't get asked at any time.

David Rosenberg:
What about deflation? What about deflation? And I still think that there's a beggar, bigger risk actually of deflation than there is inflation. And one thing I just want to add here is this, is that we're talking about inflation. Inflation is a process, it's a constant acceleration in the year over year trend. So everything that we're mentioning here, is the dollar going to zero? Is a dollar going to continue to go down every single day, every single week, or will find a natural bottom? Oil which has gone up to 50. Is it going to 100? Is it going to 200? Probably not. So a lot of these are levels shifts.

David Rosenberg:
It's like the latest one that we wrote about this was the minimum wage. Well, the minimum wage is going to go from 7-1/4 to $15 is going to be inflation. Well, meanwhile it affects 2% of the workforce. So I wouldn't exactly worry about it from an inflation standpoint. But you stopped the first time that we've had minimum wage go up?. Minimum wage was brought in 1938 and it goes up every few years, but it's a level shift. It's a level shift and that's it. And so a lot of the things people are talking about are level shifts, doesn't bring a bout multi-year acceleration in inflation.

David Rosenberg:
And I'll say, look at if we can come out of this with a rampant credit creation cycle, and all of a sudden we got wage demands coming up the wazoo, Joe Biden and his team brings back unionization. And we try and recreate the conditions of the 1970s, I'll scream uncle and say, okay, the inflation's back. But I still think

that the powerful disinflationary forces of technology, of demographics, they haven't changed. Income inequality all these things that produced relatively low growth and disinflation pressure. And I think we're going to come out of this by the way. If you going to ask me about the new normal, and this is what the market's not priced in is, a new normal is going to be what we've already seen.

David Rosenberg:
What did we see? We saw as soon as you don't stimulate fiscal policy, look what happened. Three months in a row of negative retail sells. Personal income from August to November is running -10% at an annual rate. Nobody knows that number. Nobody knows that as soon as the CARES Act started to subside personal, and by the way, even with the rebound in employment, we brought half the employment back. People don't know. I say most economists don't know what that number that from August, November personal income contracted, at a 10% annual rate. Oh, all of a sudden we need more stimulus checks.

David Rosenberg:
Well, no kidding. So people don't see that there was absolutely no vitality to this economy. There's no vitality outside of vaccines, and stimulus checks. There's really nothing going on. Okay. We can talk about Netflix and Amazon and Microsoft, but really there's not much else going on, but I'll say this, what we know is that going into this crisis more than half of the household sector, didn't have enough savings to get through three months of vital economic activity. And so what I'm saying is that all of a sudden, we have three months in a row of negative retail sales. The savings rate is elevated.

David Rosenberg:
Everybody thinks that the consumer sector has all this dry powder to put to work in the real economy. I think what they're mistaking, and we'll only know this after the second quarter. But I'm saying that, and we've done the work on it that coming out of this pandemic, we're going to have, what's called a post-trauma adjustment. And the adjustment is going to be on the family budget. And it's going to come on the most, I think, important behavioral aggregate that comes out of the national accounts, which is the personal savings rate, that arcane statistic, but everything bulls down with that.

David Rosenberg:
Because if I'm right that the new normal is going to be a 10% savings rate, not a 7% savings rate, I've just created a model where aggregate demand growth is going to be able to percentage point week during the future than it would have been against the previous baseline forecast. And that has implications for discretionary spending and all of this spinoff effects. But if I have that forecast on the aggregate demand side, that coming out of this, we're going to be saving more to than come out less. I asked the question, how do you get the inflation out of that without the accelerating demand, if we're going to become a more frugal nation of savers, where's the inflation, been? The lasting inflation going to come from?

Stephanie Pomboy:
The amazing thing is how radical that suggestion is. That may be a once in a lifetime pandemic that led to massive, the highest unemployment we've seen since the great depression might actually scar people's memories and get them to undertake sort of a bunker mentality for a while, just like after the global financial crisis and the housing bust, they went and they repaired their balance sheets and refused to borrow for years after that happened. I mean, the idea that that could repeat today much less be even larger in effect than it was after the global financial crisis is viewed as completely insane.

Stephanie Pomboy:
Obviously you just don't get it because the government's handing you money to spend. So now you've got pent up spending and all this excess saving. That's my favorite notion at all, is that the notion of all the excess savings that we've built up, that obviously has to come into the economy, but that will get to your third quarter your second half recovery, if we get to that point. But again, it's one of those things I don't know about you, Dave, but I cringe in anticipation of how long it's going to take to beat people over the head with negative retail sales, negative retail sales that increased saving rate before people finally exceed to this new normal that you're talking about. I mean, where's the stock market at that point?

David Rosenberg:
Well, I mean, maybe we'll get some exogenous shock to rates. I mean, that's what everybody's talking about and it may happen because people think, well, if the stock market will go down and it'll because rates jack up and that causes the stock market to go down. Oh, there's some people that believe well, if interest rates back up and it's because it's against the backdrop of a better economy, why would the stock market? I actually think everybody's saying the same thing, which means it's not going to happen. I think what's more likely to happen is that there's going to be some profound disappointment over what this recovery looks like post June. And here's the good news, is that we're going to know soon enough, we will know in the third quarter, because the market is laid down it's card just told us.

David Rosenberg:
That the markets, I mean, Grant asked earlier about how do we explain this disconnect between the real economy and the financial economy? And it's, well, the real economy is right staring us in the face today and the markets are looking ahead. And that's just a truism. The market has priced in a certain future that the present day economic data are really just coincident indicators. And I'm saying not so fast, I don't think it's going to be that easy. So I'm hearing a lot about, oh, well, we're going to get the vaccines, and we're going to have pent up demand. Great. Pent up demand. Pent up demand where, oh well we're going to be flying again, travel, theme parks, restaurants events.

David Rosenberg:
Wow. We're going to have like a V shaped recovery I'm told. Yeah well that's 6% of consumer spending. It's 4% of GDP. We're going to have a V shape recovery in 4% of GDP. Thanks very much. So that's enough. That should take the stock market up to another 50% don't you think? People don't understand. Yeah, look how many times you eat out a week how many times you actually go flying? Are you taking the kids to Disney like every Saturday? People don't realize. And so what's interesting is that people don't talk about the pent down demand in all the goods that we bought.

David Rosenberg:
People don't see that in this period we bought audio, we bought video, we remodeled the house we bought Peloton bikes, we built swimming pools, we bought cars anything we could spend money on because we couldn't spend money on these other services. But people don't seem to realize that you know when you look at automobiles, and you look at video and audio equipment, and you look at your floor coverings, and your window panes, and your furniture and appliances and you add all that stuff up it's double, it's double. The stuff that we actually could buy which we did is double the stuff you're talking about the pent up demand. Are we going to buy a third car? No. So people they don't look at the consumer spending picture holistically.

David Rosenberg:
We're going to get a V shape recovery and I'll be the first to say, I can't wait to fly. I cannot wait to hear these words. Ladies and gentlemen this is your captain speaking. I can't wait. And I want to go out. I mean I want to go to restaurants too. But the thing is that people overplay it and we're all basically it's in our imagination, we can't wait it's a mirage to go out again. It's 4% of GDP. And all the stuff like when you're talking about big capital spending goods on the home and autos, that's double the services we're talking about that we're longing for. Well, what happens to those things? They're going to go down as the V shape recovery and the services go up.

David Rosenberg:
And we're going to be left with the consumer recovery people going to be wondering, what happened to it? Well we've got the V shape recovery in that 6% of consumer spending and 4% of GDP. We got that. Unfortunately, you didn't counter in. You see the thing is that we are taking a look at the big cap, the big cap merchandise that we bought. The dishes, the crackpots, the cookbooks, the home remodeling, the Peloton bikes, the audio and video equipment, all that stuff. Do you know that when you add up all that stuff which is double what we spend on airlines and restaurants and theme parks and events, that stuff is up more than 10% year over year.

David Rosenberg:
In any given year, the things I just talked about is up 3%. It's up 10% in the past year. So people have not done... You see that's the thing, people they live in a narrative and they do partial analysis. But you have to do general equilibrium analysis and take a holistic view of the consumer. So people didn't realize that as we spent less than these other areas, we spend a lot more on other areas and especially related, related to what? Turning our home into our office. And turning our home into our place of-

Stephanie Pomboy:
Amusement park.

David Rosenberg:
Yeah. So it used to be the old saying on Wall Street was, we're going to cave live in a castle and now it's just basically live and work in a castle. And we turned our homes into castles. Well the thing is that you're not going to do that again in the next say five or 10 years maybe in 10 or 20.

Stephanie Pomboy:
You're also not going to go out and get the nine haircuts that you missed over the last year. I mean that's the other fallacy is this idea that the services are going to go up so much as we catch up on all the things. Like, I'm not going to go get 17 manicures. I think I'll just get one thank you.

David Rosenberg:
That's a great point because in a classic recession you're going to put off buying that car but then you'll buy it the next year and so 100% right you're not going to... Boy, I'm not going to go out and eat these eight out of the seven days, I'm going to eat because I'd missed. And that's 100% right. That's why this whole it's almost a-

Stephanie Pomboy:

What kind of bear are you?

David Rosenberg:
Well, I'm a bear that eats the salmon as berries. I think that those are all very important points that we have to consider. But something else and it's something we talked about when I talked about the savings rate is this is different. But when people say, well this was not a man made or this was not an endogenous recession. I hear that all the time. Well I don't know. What happened in Iran in the late '70s and endogenous event was one off the gold standard or the World Bank embargo in '73. And it doesn't always have to be that we basically committed Harry Carey like maybe we did with the housing and banking sector back in the late 2000s.

David Rosenberg:
This was something totally different whether it was caused by a bat in China or not doesn't matter. We've come off a year of something that we have not done before. This has never happened before. I mean 1918, 1919 in Spanish Flu they never got a vaccine. Okay? This is burnt through many more people died as a share of the population. And in fact it ended. Okay? Then you had the roaring '20s, but in the Roaring '20s the starting point on the debt to GDP, the federal debt of the GDP was 10% not 120%. And they cut individual and personal taxes throughout the whole 1920s. That's not happening this time around. But the point I'm making is that we've experienced the trauma months. I mean a year.

David Rosenberg:
A year of self isolation social distancing. And we don't know. But the thing is that I can't believe how many people think that they actually know, we're going to return to normal. We're going to turn normal. What sort of normal are we talking about here? Because we don't know. Historians will be writing about this period that we were just in. We're in the middle of it right now. Hopefully there's that light at the end of the tunnel, there's potholes on that light at the end of the tunnel. We are going to get through this we know that but we don't know. But we do know actually is after a trauma, there are aftershocks. There is a change in behavior. We haven't fully come to grips with that.

David Rosenberg:
But I'll tell you one thing, and this is actually I think more positive it depends on how it comes across. That we become a nation of do it yourselfers. And I started noticing this right away. Right away in February and March. And remember auto sales took the big dive. What was flying off the shelves were retail auto parts, and they've continued. We've all of a sudden become a nation, all of a sudden we know how to change your own oil. How empowering is that? We can actually fiddle with the engine. But I noticed that cookbooks and crock pots, and everything related to kitchen appliances… I saw this, I forget in which newspaper either Wall Street Journal or New York Times. It was about Campbell's Soup. And not so much that soup sales are up 20%, as if that's not a depressed area statistic.

Stephanie Pomboy:
Right.

David Rosenberg:
But the viewing on Campbell's Soup website for their recipes was through the roof. And the biggest demographic in terms of global traits, where are the millennials? So all of a sudden we become… Well that's

why I don't even know how much more will we go out to eat. We become a nation of chefs. And we have beyond... I'm looking at the data because I love to get into the weeds. And this stuff goes up every month. It doesn't go down. Whether we have re-openings, not re-openings the pandemic going up, the pandemic subsiding, sewing machines furniture repair, I mentioned auto repair before, floor coverings. I mean do it yourself. I mean garden supplies, garden supplies through the roof, home improvement.

David Rosenberg:
So we become a nation much more self-reliant. Well that's the thing to remember we were talking about how it's a service economy. And what happened was what do we closed down? What did we close down? We closed down what was called nonessential services, right? Who knew that closing down nonessential. Whoever thought that we'd reach a point where the nonessential economy was bigger than the essential economy. Think about that for a sec. It's called a service economy because these people service. They service, they provide services. Well let's say one of the things that went down, vertical down, vertical down, was housekeeping services domestic services. Okay? That went down more than anything else because whether... We didn't need the housekeeper anymore.

David Rosenberg:
But look what happened all of a sudden, we oh oh that's where the vacuum is. So this is going to lead to a lot of displacement. But we become a nation of do it yourselfers and are much more self-reliant. And I think there's something that goes along with that. I'm not going to say that's going to add to GDP growth, that probably doesn't. But these are just one of the characteristics that have been altered through the pandemic. What else happened? Look at pets. Look at companionship, pets and pet services. There's a secondary theme right there. But you're seeing this other one that's ongoing.

David Rosenberg:
It's so obvious it's right in front of me. It's in the data and it's early stages. It's taking a look at the shift between multi-family housing and single family housing. And then taking a look at where is the biggest decline in housing demand right now? You know where it is? Well Stephanie I think you would know based on your own housing preference.

Stephanie Pomboy:
Right.

David Rosenberg:
Is multi-family the Northeast is going way down. We got those numbers and the housing starts for December. We are in a huge bear market in the Northeast. Not exactly tax friendly, lousy weather. But multi-family Northeast is going way down. And yet single family stocks and sales in the South are going way up. And I think that's what's happened here is that this appreciation for what? For open space and open air.

David Rosenberg:
And that's a secular shift as well. So all these people that are saying, we're going back to normal. I don't think they understand that we've really we had a fundamental shift in people's attitudes, and we fully haven't come to grips with that. And there's going to be winners and there's going to be losers.

Grant Williams:

Let me ask you. We've talked about the narrative several times here. And in the back of my brain I'm still trying to grapple with the idea that we've come across a Canadian who can be rude because I thought that was a non-existent species. I'm still from 20 minutes ago battling with that. But this idea of a narrative if we think about this, there's this narrative on Wall Street that we've got to keep the pump going. We've got to keep talking about the positive stuff and look for these and in relations that Cisco mess in 2000 it was the same then, but we're at a point now where Wall Street thinks the Fed has their backs.

Grant Williams:
Main Street now believes the government has their backs and that there will be stimulus checks coming, when we need them the government are going to step in just print more money. And in the markets obviously, there's a belief that passive has the markets back. So everybody seems to feel bulletproof and seems to feel like, well, I see all the things that go wrong but there's someone who can step in if it does and provide me with a safety net just a little bit lower down. How do you see that unfolding? And how do you see that the cracks in that particular idea?

David Rosenberg:
Well, it's become a very popular narrative. That the Fed has your back and of course look there's no doubt that it's not just the Fed. It's the central banks globally. I mean we have a situation where you got the ECB buying almost everything in sight, the BOJ own 6% of the equity market. People asked me when the Fed started to say they're going to buy high yield I was getting questions, well, if high yield resides next to the equity market in the capital structure won't they come in and buy the SPX? I guess anything is possible. I never thought that Jay Powell could play the role of E.F. Hutton, but maybe that's true. It's basically this. Yes we have a situation where the multiples have expanded rapidly because of the Fed, that much is true.

David Rosenberg:
And it's hard to with any degree of intellectual rigour, really approach valuations when you have manipulation of financial assets to the extent that we have. So I would tend to agree with you to that extent. But you do have the multiple and then you have earnings. Now we had a situation where we had an earnings procession but the multiple boost from what the central banks were doing was so acute that we had a huge renewed bull market assuming that we can even call what we had in February or March a bear market. Maybe it wasn't, it was just so short despite how severe it was. But we have to be mindful of the fact that does the Fed really control the E?

David Rosenberg:
The Fed can have some influence on the PE, but at some point even the multiple will find a resting place or find a plateau. And that's what I was saying before that I don't really have a negative interest rate story for you if you're bearish on equities. Then if I'm bearish on equities is not because of interest rates. It's because I think there's too much priced in. And the reality is that if I'm right, on the second half of the year that it's going to be a disappointing recovery that life is not going back to normal. Doesn't mean that there's not going to be winners, but my sense is that there'll be a re-evaluation. It doesn't mean the multiples got to contract necessarily but it means that those earnings expectations are going to come down.

David Rosenberg:
And that's my principal concern. And we could have a situation where the Fed is actually forced to ease policy further in light of another draw down in the stock market. We always know. We know the Fed's

going to respond. We know how the Powell Fed is going to respond. But look we've seen this before. We had the draw down in 2018. The Fed was there to pick up the pieces we had the Powell pivot. But did the Powell stop the 20% draw down in the fourth quarter of 2018? No. He was there to pick up the pieces. And he was there to pick up the pieces this time around as well and he'll be there to pick up the pieces again. But the cycle is the cycle.

David Rosenberg:
I don't think that J. Powell, I don't think any man, and I don't think any institution is bigger than Mother Nature. I think that the cycle is still the cycle, and I would say that everything I said is true that these manipulations and where real interest rates are, I mean globally has really inflated these multiples. I don't expect they're going to continue to expand. I don't think this is a Jack and the Beanstalk. But they will stay inflated with interest rates in the range they're in right now. The biggest risk to the market is not interest rates. The biggest risk the market is earnings disappointments.

David Rosenberg:
And that's why I think that we're going to have a draw down. I don't think we're going to have a repeat of February or March. But I would be suggesting, especially at these incredibly tight levels on credit spreads. I mean high yield with the four handle, yeah, you're not compensated for any default risk at these levels. The cape in the mid '30s, the cape multiple, I mean what's that telling you about the earnings yield in the market is 3%? I would say that I would want to have a position in cash right now. I would say actually you'd want to have 20% in cash right now. Because people say buy the dip, buy the dip, buy the dip, by the dip. If you don't have any liquidity or cash where are you going to buy the dip with?

David Rosenberg:
You going to sell other assets or you've got to leverage up. So where I come out of this is that we're going to have another draw down. I think it's going to be natural to have one. And it's not going to be based on what people think it is. It's not going to be based on tapering by the Fed, and I don't believe that we are going to have inflation causing rates to back up. What I do believe is that there's just too much in the way of earnings expectations embedded in the market right now. That's where I think unwinds in the second half of the year.

Stephanie Pomboy:
You actually sound very, I would say restrained in your outlook for the market in terms of just another sort of repeat a February, March not a reversion to mean valuations which would result in a haircut closer to 50 to 60% from where we are today. Is that correct that you think we have this sort of standard what we've seen over the last several years where the market goes down 10 to 20% and the Fed rushes in with the fire hoses and that may set the floor and then you keep going up and then you have another 15, 20% flash and the Fed comes back in. I mean do you see that cycle ever ending? Or is that just going to be the new normal for us for eternity?

David Rosenberg:
That's what I know. You're going to this conversation with Grant after the show and you're going to say, I thought he was bearish, [crosstalk 00:58:37]. Well you know look, here's a story. When I was at Merrill with, I can't remember if was with Rich Bernstein or Bob Farrell where we were having breakfast and we're talking about how the market's going to go down 40% and then at the presentation one of them said we're

going to go down 20%. And on the way back up, I said, "I thought you said down 40," says, "I'll give them 20 now and then again 20 later." So look, I could tell you I've done... I mean look if we were to normalize everything. I mean that's what I tell people if you want to normalize interest rates you got to normalize the multiple.

David Rosenberg:
You're not going to be happy that the S&P is going to show up somewhere around 23, 2,400. When the Fed Flow of Funds numbers came out a couple of months ago, we did some analysis on the Tobin Q and looking at book value against market value and you get somewhere you know 24, 2,500 on the S&P. So we run a lot of models so there is Greenspan 20 years ago in one of his Humphrey Hawkins testimonies everybody talks about the Fed model which is just big Ed Yardeni coined that phrase but it's comparing the earnings yield on the Treasury yield. But if you do like a dividend discount model under normalized conditions once again, that the S&P ends up somewhere 23, 24, 2,500.

David Rosenberg:
So I could build you all the stuff based on normalized valuations but are we going back to those normalized valuations? It's just, I'm trying to tell people, well this is where you can argue intrinsic value is where market value is. But we know firsthand that the central banks are very, very powerful entities. Now I said before that they're not bigger than the market, they're not bigger than the market but they actually for a period of time could have an impact and they obviously have. But we talked about you know all the way back the term Greenspan put the first central bank to actually implicitly say, I have your back. Was Alan Greenspan after the crash of '87. Since 87 we've had countless corrections, many bear markets. Of course the market's up since then.

David Rosenberg:
But if you don't have to participate in a bear market or correction you'd rather not. That will actually help out on your compounded returns over time if you can actually skip the bad times. But that's always been the case and it's in the case now known by several multiples. But the point is that we get the economic backdrop I'm talking about, the market will react to that. Will the Fed end up reacting because the Fed wants to maintain easy financial conditions they still believe in the equity wealth effect on spending? Yeah they'll come in and they'll just expand QE which is what they've done all along. But not after we get a significant correction that's based on economic fundamentals. And that's what I think unwinds.

David Rosenberg:
Because there is some of this. I mean we can talk about how... And I've talked relentlessly about how the central banks have created these artificial conditions. But let's not make a mistake here that part of this rally has been based on a revival of economic expectations. And it's not just out of the blue. There's reasons to be optimistic because I think that when we call Pfizer Monday that to me that was a very critical day. That was maybe as important is when the banks got recapitalized and save back in March of '09. That was a critical day. But unlike March of '09, we didn't go into price in a massive economic recovery premised on a whole bunch of assumptions. And when I do the bean count on the savings rate, what's going to be spent from stimulus, what's going to be saved, when I count in to my models people shifting behavior that we already are in a deleveraging.

David Rosenberg:

People talk about how great shape the household balance sheet is done. Well corporates blew their brains out on debt to buy back their equity. We don't know what the governments have done. But the other side of the household balance sheet is in great shape is that they are deleveraging, and that 70% of GDP. And I think there's going to be a song going. I think we're going to come out of this with a lot more frugality on the consumer side than people think. And they're not going to say that we're not going to have a sudden rush of restaurant and airline spending and going to the sporting events. But there's a whole picture here of consumer spending their transcends at.

David Rosenberg:
And that's why I think the disappointment is going to come out I'll just say that I don't think there's going to be as big a revival in that 6% of consumer spending people are talking about. But I don't even need that on my forecast. I know that there's going to be... People talk about pent up demand that there's going to be pent down in a lot of areas that we actually spend a lot of money on that aren't going to be spent on again. So I think that's going to be a much more feeble recovery than people think. Even with an infrastructure package that doesn't show up in one quarter, that's going to show up over a period of many years. And you can talk about well I'm very bullish on the energy grid, and clean energy, and storage, and so on and so forth.

David Rosenberg:
That is all well, untrue. We had a very big infrastructure program with Barack Obama back in 2009. Does anybody remember it? You can even point to really a single quarter where it all showed up. But be that as it may, I think that's my big premise here. My big premise here and my reason for my bearishness and the reason I'm not overly bearish is I think that the Fed will come in and central banks will come in and play the old game. But I want to get ahead of that. I actually want to have cash on hand. I am going to be an avid buyer into the next bear market. I will be an avid buyer. And I'll be an avid buyer of the things you want to pay attention to by the way because the one thing I will say is that there will not be another bull market in passive investing.

David Rosenberg:
There will be a bull market in active investing and you're seeing it already and in stock picking. And so it's going to be very important to have some cash on hand to buy into the next bear market. I intend to do that. But focus on the sectors that outperform focus on the sectors that outperform. Focus on the sectors that outperform the next bear market because they will outperform in the next bull market. And it's no different than focusing on what was outperforming during the tech wreck in 2000, 2001, 2002. So that could lead you to a certain value bent in your investing philosophy and that's probably where I'd be gravitating towards. And I don't even need to have rising rates and inflation to do that.

David Rosenberg:
Just focus on the areas of the market that have great valuations. There's areas of the market Stephanie and of course because we talk about the overall market but so much of it is in growth but there are areas that are not in the growth area of the market and a lot of these you can find in the small cap indices, in the mid-cap indices focused on companies that are trading at a discount to net asset value. By the way a lot of those are in the energy sector which isn't going away.

Grant Williams:

Rosie, if you, I mean this is... I think you're saying end of Q2/Q3 story that you kind of anticipate this to happen. To raise that 20%, cash what are you selling because I'm guessing you're not selling your gold, I'm guessing you're not selling your bonds because you still feel deflation's a problem. I know you're a just a giant in the crypto space so you're probably not selling your crypto either but is it equities as in I'm going to sell U.S. equities? Or are you're going to be selective in how you do it? Is this an equity story or is it a tech story or a sector story?

David Rosenberg:
Well I would say that you want to take profits in your winners. I'm actually-

Grant Williams:
What kind of witchcraft is that? Who does that anymore?

David Rosenberg:
Well no, but I think look at no but last year... Look people don't realize last year as we looked at whatever an 18% return on the S&P500. I mean, everybody likes to talk about the 70% lift off the lows but we had a gut wrenching decline going into that. But the bond bullion barbell was like over 20% return last year. So I would say that whatever winners you had, I mean look, I would say that I have a whole smorgasbord of growth stocks in my portfolio the answer is no but there's a lot of people that did. I'd say that that's what I would do. I mean I already had that cash. I don't want to have to raise 20% cash. I'm a conservative investor to begin with. But I did do some trimming around the edges on a lot of the stuff that's worked.

David Rosenberg:
I still own them whether it's gold or whether it's Treasuries or whether you know it's the Canadian bank stocks. I think you want to have some liquidity right now. Because we have a situation, I'm looking at the ECI data, I mean, portfolio managers are 2% cash. They've never been that low. I mean everybody is fully invested. So but I know a lot of people that had the gold stocks, they made a ton of dough. And I'd be... Of course people say, well, what about my tax implications? And my answer is that, well go talk to your accountant. I'm the economist. Economists are accountants with personalities.

David Rosenberg:
But go speak to your accountant. I can't help you there but if the market takes a plunge you're not going to be worried too much about that you took profits and pay taxes on it. So that's basically how I would do it. I would sell whatever you can see in your portfolio that is overvalued and there's a lot that's overvalued, that's where you want to be trimming.

Stephanie Pomboy:
Wow. Well this has been great Dave. I-

Grant Williams:
It really has.

Stephanie Pomboy:
... love getting to exchange growls with you even if I'm growling louder than you are. I can't believe that.

David Rosenberg:
I don't believe that either but. Either you're coming in a good mood or the two glasses of cabernet I had before coming on [crosstalk 01:09:28]

Grant Williams:
Don't worry. We'll edit out anything remotely bullish don't worry. Your reputation will stay. Dave thanks so much for joining us. It's been an absolute thrill... Just for people listening who aren't already following on Twitter, I guarantee you 90% of them all, but for the other 10% just let people know how they can follow on Twitter and how they can find out more about Rosenberg research.

Stephanie Pomboy:
And not the fake account, the real account.

Grant Williams:
Yeah that's right.

David Rosenberg:
Yeah. Who'd want to be my impostor right? That's a joke.

Stephanie Pomboy:
No. It's a high honor. No one's trying to masquerade as me, ever.

David Rosenberg:
All right gang. Well Happy New Year and thanks for having me on.

Grant Williams:
Come on Rosie, we can't let you go. You got to let people know how to follow you. They're going to let you know your Twitter handle and how to find out more about Rosenberg Research.

David Rosenberg:
So you can e-mail me at drosenberg@rosenbergresearch.com. I was brought up well by Depression-era parents. I guess that goes to show the dark cloud that's always over my head. But I was brought up to be respectful and so get in touch with me and I will be sure to get back in touch with you.

Stephanie Pomboy:
Amazing.

Grant Williams:
Rosie thanks so much. We'll see you soon hopefully in person.

David Rosenberg:
Yeah same same. All the best.

Grant Williams:
All right take care. Bye-bye.

Stephanie Pomboy:
Take care. Thank you.

Grant Williams:
All right he's gone. We can talk about him now. I just love talking to Rosie. He's just so good to listen to right? Because no one digs into this stuff like he does.

Stephanie Pomboy:
No. I was captivated the whole time. I mean I just looked down and I was like, oh my gosh you've been going for an hour. And it felt like you we were just getting warmed up. But yeah, captivating.

Grant Williams:
It's funny. I follow him on Twitter and what he was saying at the beginning there about how he gets more flak on Twitter than he does for the research which of course is understandable. But it's fascinating to watch because what Rosie does is he puts up a chart that tells a very very clear story. And then he says here's what the chart says. And people are crying, "he's a witch! Burn him"].

Stephanie Pomboy:
Right. Right.

Grant Williams:
It's just crazy, there reaction.

Stephanie Pomboy:
You don't get it. That chart has nothing to do with the reality apparently that's right in front of you.

Grant Williams:
It's astounding. It really is astounding. But that Q2, Q3 earnings surprise is obviously something that it shouldn't be a surprise to anybody because we all know the comps, we all know the valuation, but I just wonder what is going to be the narrative that is at least attempted to be created between now and then to justify? Because it always seems like, okay, we know what's coming. So between now and June we've got to come up with a story as to why it doesn't matter.

Stephanie Pomboy:
Right. Right. Well and in front have who knows what kind of headlines. I mean when I sit back and look at the markets and this expectation that Rosie talks about, I mean what is the marginal bit of positive news that's going to drive the market higher from her? I mean we've added, last I counted we added six trillion in market cap from where we were before the pandemic. Not from the lows, but from where before we even knew coronavirus existed so 6 trillion more.

Stephanie Pomboy:
I mean we're discounting not a return to the normal, we're discounting something like we've never seen before. So I don't know. I mean it's going to be really interesting to see how long we can sustain. I feel like that old trade illusion of the road runner running off the edge of the cliff. I mean we discounted all this great news and what's the marginal thing that's going to keep us elevated here? I mean I guess the answer

is the Fed. But that's already fairly discounted as well isn't it?

Grant Williams:
You would think. Right. You would think. But as I said I just I don't know. I had a conversation with Paul Singer last week and he was talking about how everybody is now used to winning, and the condition to win every time. And if they don't win, someone always steps in and gives him a participation trophy kind of thing. And that it's interesting because that has worked. Right? Every time there's a wobble as I said when we were talking to Rosie, that the market knows the Fed's got their backs and now Main Street believes there's another stimulus check coming no matter what happens.

Grant Williams:
But at some point, and we've talked about this before either the deficits matter, even though people will always tell you they don't. But at some point maybe they will. Or the Fed's balance sheet matters. I don't know. I really don't know. But at some point you have to assume it does. But is it worth betting against that at the moment? I don't know.

Stephanie Pomboy:
Yeah well Keynes would say it's not. Lord knows the ability to go on longer than I can remain solvent is one I'm trying not to indulge. But that was one thing I was going to push Rosie on when he talked about how we'd have this downdraft and then the Fed would come in, and it was an opportunity to buy. At what point does the Fed damage its credibility so much that it injects the stimulus and it doesn't get the usual desired result? I mean do we get to that point? I guess that's a question will only know the answer to in the fullness of time, but boy, I mean there track record is so bad.

Grant Williams:
But it's an interesting point this idea about the Fed's credibility, the Fed ability we can call it. But you would think that by now that credibility would have been shredded if it was based on anything other than the size of their checkbook. Because by any [crosstalk 01:15:53], their credibility is zero. They've got everything wrong. They've failed to predict just about anything, they failed to prevent anything.

Grant Williams:
In fact they've actually assisted in the creation of every single bubble [crosstalk 01:16:05] 40 years. But their credibility seems to rest solely now on the fact that, well okay, no matter how much they suck at everything, does their money still buy higher asset prices? And if it does then they have credibility. I don't know. I don't know.

Stephanie Pomboy:
And it also your earlier point about how everyone's so acclimated to winning that they just assume even if they lose for a day, they're ultimately going to win. But that becomes a self-fulfilling phenomenon. If people never feel like they're ever really going to lose, then they just keep playing and you keep buying every day because you know you're going to get bailed out. So, I mean I hate to go there but it does get you into that whole question. If a tree falls in the woods and no one is around, does it make a sound? I mean we're sort of in that-

Grant Williams:

Just the sound of people like you me and Rosie just quietly sobbing. I think that's the sound that you can hear. It's not falling trees.

Stephanie Pomboy:
Well the one thing I was going to say though, on a totally unrelated note to what we're just talking about, is his whole thesis about how we become a fixed it economy and people have learned to do for themselves. And I know I corresponded with you the other night and you were doing a British break off with your father and your brother.

Grant Williams:
Absolutely. You're right. Absolutely you're right.

Stephanie Pomboy:
I love that. And my great triumph was that I installed the running boards on my new Jeep by myself. So-

Grant Williams:
There you go. Rosie was right. Rosie was right.

Stephanie Pomboy:
We're baking and we're auto mechanic kings.

Grant Williams:
Until I get food poisoning and you're running boards fall off. But listen, if that happens we just have to keep quiet about it. Oh well listen Steph that was as always... Wow an hour and 15 minutes. It's a long time for us to be nattering away. And as you said it felt like about 20 minutes. So thank you for doing this again.

Stephanie Pomboy:
We haven't even had you talk about the exciting start you've had to your new year, and your new beginning. You've got to talk a little bit about that.

Grant Williams:
Yes. Yes yes yes. Yes well I've been underwater with this new relaunch of my website which has been, I have to say it's been great. It went as smoothly as these things can. And that is to say it was an incredible amount of work, an incredible amount of kind of keeping on top of it once it was launched. But the guy who built this new website for me, I may as well give myself a plug, right? It's our podcast! grant-williams.com. The guy who built the website just did a phenomenal job.

Stephanie Pomboy:
It is gorgeous.

Grant Williams:
And he just anticipated every possible problem which was the best part of it because it was just stuff that had to be done. It wasn't problems. No putting out fires and stuff so. I have to say it has been a tiring but wholly pleasurable experience. And I'm delighted with the results. So anyone listening and wants to go check it out, go check it out.

Stephanie Pomboy:
Well you definitely should. It's worth checking out and it's putting the rest of us to shame as usual.

Grant Williams:
We can start work on yours next Steph. Okay. Right well listen, all that remains is to thank you for listening to us, as always. If you weren't out there listening it would just be me and Steph talking to ourselves which would be absolutely fine with me but probably not so much fun for Steph. We'll also thank our very special guest, David Rosenberg - his Twitter handle is @EconguyRosie, R-O-S-I-E. And if you don't follow Rosie already you are out of your mind. Because he's one of the best follows on Twitter. You can follow me should you wish to do that. You'll find me @ttmygh.

Stephanie Pomboy:
And I'm @spomboy.

Grant Williams:
Look at that. You could do that now without looking at the writing on the palm of your hand.

Stephanie Pomboy:
I can do it now. You caught me out.

Grant Williams:
All right Steph, I'll see you again soon and thanks for listening, everybody.

Stephanie Pomboy:
Pip pip and cheerio!

Grant Williams:
Nothing we discuss during *The Super Terrific Happy Hour* should be considered as investment advice. This conversation is for informational and hopefully entertainment purposes only. So, while we hope you find it both informative and entertaining, to say nothing of super and terrific of course, please do your own research or speak to a financial advisor before putting a dime of your money into these crazy markets.

GRANT WILLIAMS