Diego Parrilla: The Revenge of the Anti-Bubbles

August 15th, 2024

Erik: Joining me now is Diego Parilla, CIO at Quadriga Asset Management. Diego, it's great to get you back on the show. It's been quite a while. Needless to say, I think what's on everybody's mind these days is okay, what exactly just happened? It was a yen carry trade unwind because of a BOJ policy decision. Oh, wait a minute. They changed their mind. They took it back. Does that mean it's all over? Is this just a correction now? Are we headed higher, or is this just the beginning of a bear market? What should we think about this big risk event that's just happened in the market, and Is it over yet?

Diego: Yeah, thanks Erik for having me back. And for sure, I think what happened is the result of a number of drivers. I mean, first of all, we've had a period of what I would consider to be artificially low levels of volatility, and that has contributed to a number of dynamics, including very successful in crowded carry trades across the board, where the Japanese yen happened to be one of the preferred but not the only funding currency. The other major factor, obviously, is what I would consider the bluff on Japan's idea that you can actually print and borrow your way out of problems at infinite and that bluff has been called. Japan's been leading the monitoring fiscal abuse for the past few decades with zero and negative nominal yields and extraordinarily high levels of government debt, basically driven by this view that the enemy is deflation, and you can literally print and borrow as much as you want without any severe consequences. And so, what's been playing out for the last couple of years, is a reversal of some of those dynamics, with effectively inflation post-COVID being obviously a clear problem. Countries and economies like the US aggressively hiking at a pace in size that had literally no precedents, and people like Japan lagging behind big time, totally unable and unwilling, but mostly unable to do something about it. And that widening rate differential that you know, inflation, that all these factors contributed to pretty much a one-way depreciating yen in a low vol. So, if you add the low volatility trend, wide carry and this spiral of the valuation that leads to dynamics that are effectively very difficult to revert. I think they got into a position that got to a bit of an extreme.

So the BOJ, I think Central Bank of Japan, they're back against the wall. They effectively took the decision to unwind yield curve control. For me, that was really a pretty major point in the fate of Japan, because effectively, with the level of debt that they have, to pretend they can let long term yields to go up somewhat freely is science fiction. It leads to a situation where, as these long-term yields, or yields in general, go up, and you have too much debt, they could result into what I call an LDI[2]. I mean, you might remember the crisis in the UK, where we had higher yields, weaker Sterling. And this situation got Japan to extreme levels in Dollar/Yen, which effectively forced intervention for the nth time, and were potentially opening the door to force

repatriation, or the more extreme measures. I think, once you go into the hikes and the market starts pricing them out, and those actually materialize, I've seen some of these skeletons in the close that come out. Volatility increases, and there's a clear bubble, anti-bubble relationship here between volatility and prices and the CTAs. I think trend followers are big drivers of both moves on the way up and down, and the move in the Nikkei, it's somewhat a bit of a zero sum game in total return terms, because a lot of the strength that we saw in the Nikkei, that everybody felt very happy about, effectively reversing multi decade cycle and making new all-time highs was largely driven by Yen weakness, and so it shouldn't be a surprise that as the yen unwinds and strengthens, then you have this dynamic in the Nikkei.

So, to keep things equal, 20% down move in Dollar/Yen and a 20% up move in the Nikkei, or vice versa, lead to effectively neutral total return game. So I think that all that went to expose that, obviously, the central bank had to step in refrain, or control a little bit some of those expectations with hikes. Because I think what we're seeing is the reaffirmation of the big thesis of the anti-bubble. You know, if you abuse monitoring fiscal policies, eventually the degree of freedom is inflation and the currency. And in some ways, what we've seen is, as Mike Tyson would say, everybody has a plan until they punch you in the face. And I think once you see your currency moving, but worse than that, you see your equity market collapsing and doing 12.5% in a day, worst day since ‘87 and a 20% drawdown in a few days, then obviously forces people to react. So my sense is, implied volatility is picked up. It's still at reasonably high levels. We're off the highs, but still high. But if you look at the VIX and other markets, that's already easing fast. So, my sense is that the carry trade is very much alive. The position has been cleaned significantly. Depending on who you ask, you might hear that that's been reduced to about by 75% and so my sense is Dollar/Yen is going to go back up with a weaker Yen as volatility consolidates in some of these dynamics that we've discussed with rate differentials and others, and inflation and continue to play out. So, I think this is a bit of a canary in a coal mine, you get, again, every time you have artificially low volatility in artificially high prices, or vice versa, they can last for a while. They create a lot of complacency, but when they unwind, they can do it in a very fast and vicious way, which is what we've witnessed. And you know, I think whilst the position is now much cleaner, and probably will see that some of these moves going back to where we were before. There's a bit more caution and perhaps a few people licking their wounds. But yeah, I think the fundamental picture hasn't changed. The big framework has been reinforced. And yeah, there are a lot of structural issues in the system that we need to be mindful about.

Erik: Diego, I want to let our listeners know that we're recording this interview on Monday morning, so it will be a few days old by the time they hear it on Thursday. As we're recording the S&P showed its first close on Friday above its 100-day moving average, as we're speaking mid-session on Monday, looks like it's so far headed for a green candle. Maybe the recovery is on. How should we think about this? Is this, okay, the bad weather is behind us, it's time to look ahead? Or is it more of picking the level where to hedge in case there's more bad weather to come?

Diego: Well, personally, I think the path of most pain for trend followers was they were max long at the top. This is always the case. You have low level of implied volatility, such as the VIX. Markets are high. People are very levered, and then these very sharp moves in terms of volatility and price which follow a bubble/anti-bubble relationship. Effectively, they send Value at Risk through the roof. They create very mechanical process of forced liquidation, and they feed on themselves, because you have this, basically, sell-off in prices, feeding to higher volatility and forcing risk down until eventually things start turning around. And so, in that sense, from a CTA perspective, if you're a trend follower, this is not a lot of fun. I mean, if your model has been triggered, and we've had pretty huge moves in terms of direction, many of these players have been whipped around. And you could argue that some of these, you know, nothing's happened. You went to holiday for a week, you come back, and you can barely notice. But the reality is, there's been bit of a massacre for a number of people who've been taken out at the lows. And they are, in some ways, their model is forcing them back in. So in that sense, if you were to see the market as a pain finding machine, it's doing a pretty good job with some of the strategies that were working really well for a long time, such as carry and trend. If you actually think about the bigger picture, and you know the narratives that were used to justify some of these moves we talked earlier about, monetary policy and imbalances and structural imbalances like Japan. But if you think of the forward-looking picture in terms of the risks of recession and what it means for equities, both in terms of earnings and other drivers, there are also reasons to be concerned. And I think the pressure is likely to be for lower and you look at the absolute levels of valuations, and they're pretty huge and pretty high.

The obvious other factor here that has been distorting the picture dramatically, and is very difficult to pin, is the AI side of things. We are we looking at a bubble, and how is that contributing to the move on the way up, and potentially the virtuous cycle on the way up and the vicious cycle on the way down, and that, I think, adds volatility here again. It's impossible to, you know, I don't have a crystal ball. I don't know exactly what's going to happen, but certainly many of these drivers are potentially showing excess. And so, to the extent that two plus two equals four, and you might think that things could normalize eventually, I would think that, from that fundamental perspective, the risks are skewed for lower that could happen in a more orderly manner or in a less orderly manner. And obviously, we need to factor in mommy and daddy, the central banks and the governments, and how they're going to react to this. And in that sense, is somewhat concerning that the market's already priced in, pricing so many cuts, right? I think the US curve is looking at over eight cuts priced in the next couple of years. You could read into that in different ways. You could think we won the battle in inflation. We took rates where they needed. The world's in a great place, and let's go and basically cut proactively, because it's a great world. Or you could take the other view and say, oh my god, things are really terrible, and we're going to need these cuts. You could read into it, time will tell.

But, yeah, I think looking into equities for sure, some of the pain has, through this high vol has materialized and already destroyed a few strategies and a few people. And perhaps, might be a bit of a warning. And it's only as of time of recording, been a week since the big day. And it's pretty shocking, or not, that we're pretty much back to where we were in many of the indicators, as nothing happened. But, yeah, this memory effect on volatility, and perhaps the sensitivity and

reactivity of the market to different price moves, and not just implied, but also the high realized volatility can actually test some of these dynamics. There are multiple other factors here at play that we as macro guys monitor very closely, such as geopolitics. And that's another one that you could snap any minute. And the market doesn't really, sometimes, pay as much attention as perhaps it should, given the direct and indirect consequences that it has.

Erik: Let's move on to inflation next. We've had every view imaginable from the bottom is already in and it's secular inflation from here. And look out, it's going to get worse. To no, this is just the beginning of a deflationary move, and we're headed back towards a deflation situation in coming years, with negative yields and so forth. What do you think about the big picture? Where do we stand in this whole inflation story?

Diego: My view is that inflation is structural and is going to stay structurally high. But we need to make a few points first. I mean, the first point I always make is that we tend to refer to inflation as if it was this single number, absolute truth with three decimal places, that's it, that's gospel, right? And the reality is that your inflation basket, Erik, is different from mine and different from pretty much every listener here. So to think about inflation as just one single number is ludicrous. The second one is that, as a corollary of that point, this basket can be grossly manipulated. And so official inflation, I think, as a rule of thumb, I tend to talk about real inflation, real average inflation, being at least twice the official inflation. And the other factors here, is that this game, this battle on inflation, obviously has more cyclical aspects, whether commodities, there's a recession or whatever, and more structural drivers, and I think people, both sides of the camp, can be correct. I mean, you could have cyclical drivers that effectively result in weaker demand and weaker price action and de facto deflation. But the problem is that from a big picture perspective, the situation is so fragile from the excessive debt and abuse of monitoring fiscal policies, that if you ask me, it's pretty clear that the world is going to need more printing, not less, and it's going to need more debt and not less. So structurally, if we think about emerging markets as perhaps the leader of what's to come, very often, we used to, I hear and people talk about the Japanification of the world, or the Argentinification of the world. My view is, you're seeing the Argentinification of Japan. And we've seen that with the UK. I mean, theoretically, developed markets behaving like wild emerging markets and emerging markets being, having learned from their lessons.

So I think when it comes down to inflation, again, both camps can be correct. Don't let the short-term dynamics fool you. The world's going to need significantly more printing and more debt. Things like yield curve control that we pretend that we can live without, in my view, they're coming back, yes or yes. It's the only way in which we're going to be able to control long-term yields, and that means more printing. And there's a trade-off here, where, and we are transforming what is de facto a bubble in credit and duration and many, many things into inflation. That's the process, that's what yield curve control does. And so, I think, again, my view is the end game here is clear, in that central banks and governments will always react the same way to trouble. In the short term, they try to do the right thing, but either when the black scald or the reality hits them, then they always resort to the same. And that has been the case whether there's financial crisis in the banks, or energy crisis through subsidies, or a government crisis, or

any other crisis you can think of, it's always the same set of answers, of money printing and debt that look to try to solve these problems. But the fact is, they're not solving them. They're just delaying transferring, transforming and enlarging them, and that's, I think, why inflation and in other words, the purchase power of people is decreasing by the day. And I think the other very, very important dynamic in inflation is, we have to differentiate between inflation and inflation expectations. And to keep things simple, I would argue that in a world of low inflation and inflation expectations, central banks are in control. But more importantly, inflation expectations get out of control, and people start, as frogs in this monetary growth, start jumping off of that fixed income market and things that effectively are losing purchase power by the minute through inflation, especially long, dated stuff, then central banks have no choice. And, I think that's really what happened back in the day when we saw this, desperate hikes, incredibly aggressive, you know, got my mind those words from Powell, we're not even thinking about thinking about hiking interest rates, and not so long after, they're making these cuts,

Erik: Diego, let's talk a little bit more about those cuts, because in the immediate wake of this correction and the carry trade unwind and so forth, the market started pricing as many as four or five cuts this calendar year from the Fed. I think that's softening now. How do you see it? Do we really have a big cutting cycle coming?

Diego: Yeah, that's what the market's saying. It’s very aggressive. I think, clearly, monetary policy is not absolute. You're looking at also the relative. And people like Europe have already started cutting, and we might be doing it for slightly different reasons. But I think, as we were saying earlier, I think this could be the reflection of we won the battle, or we're in trouble. This price action is, we're in trouble. We need the support we need to stabilize the market. Those cuts and those lower rates are effectively doing that. They're effectively providing support to risk assets. And so every time mommy and daddy come and save the central bank put, I think, right now, with this current level of nominal yields and the duration of the bonds, we are in a situation where fixed income is actually defending the portfolios. The 60/40 portfolio, under this sort of scenarios, is working in the sense that losses in the equity are being somewhat protected by fixed income, but there's limits to that. And there's also a scenario that is more worrying, which is the cultural down risk, which is what we saw in 2022, equity down, fixed income down. So, I think the fact that we're already using some of these bullets that are already priced in gives us less room, and it shows you also how quick the market is asking for help to mom and dad and fully understanding that they're going to be there to support it. But again, this is just reinforcing this cycle and not really solving the problems. It’s kicking the can, delay and transform, and, in my view, enlarging. So we're just not out of the woods at all.

Erik: I want to come back to what you said earlier about your view that inflation is going to run maybe as much as double what the reported value is. It seems to me, if you have that variant perception, there's trading edge to be found there in the sense that most market participants are going to be trading from approximately the official data. So, if you have that view that real inflation will be much higher than reported inflation, what's the trade? Is it long commodities? It's something else? How do you benefit from that?

Diego: Yeah, I think real assets ultimately have that edge. I think, in the short term, you can fool people by pretending that inflation is effectively much lower than it really is. And central banks have this first mover advantage. And the governments, they're the ones who are printing the money. They're lending it, they're borrowing and they're using it and they're spending it. And so, they are the big beneficiaries of a world of their incentive, is to try to print and borrow and spend as much as they possibly can. Whilst, let's say inflation is not picking up, scenarios where the economy is running slow gives them even more room to do it, and then these things effectively accumulate in the system. But eventually they show up, and they show up in multiple ways, and we see pretty unhappy people out there with scapegoats that you don't know who to blame. And that's kind of the sad thing, we see people losing purchase power. It's very difficult for people to actually pinpoint and say this was some central bank just printing money like crazy. It's very easy to find scapegoats and to blame for these prices. And that brings us into all sorts of political dynamics that we're seeing, from social unrest to, obviously, polarization and wars, which I think it's, I tend to dedicate my second book as you know, I hope you like it. I hope I'm wrong, because I do feel a bit like a doctor diagnosing this terrible disease to a friend. You know, as a friend, you want to be correct. As a doctor, you want to be right. And I think this dynamic is playing out.

Erik: Diego, let's move to energy prices next, starting with the big picture outlook of what you see globally for energy prices. But also, more specifically, since you're in Europe and have that perspective and just mentioned this growing geopolitical tension and escalation, I guess you could make one argument that, hey, there's plenty of spare capacity. OPEC is holding 4 million barrels off the market right now. You know, we don't have to worry too much about energy prices, to wait a minute, things are happening so quickly geopolitically that you just have no idea what could happen next. And maybe as we go into the winter season, we could be looking at a very risky situation for Europe, particularly in terms of energy prices. So, is this a time to relax into spare capacity or a time to worry into geopolitical escalation?

Diego: Well, it's a bit of both. I think the energy market is very complex. I think the first point I would make is that, we tend to look at crude oil, and Brent in particular, as sort of the main, key benchmark for global energy prices. It's very important to know that crude oil, historically has been primarily a transportation fuel. We use gasoline, diesel, jet fuel, to basically move from point A to B, and in that sense, there's been historically, very little direct competition for crude oil in that side. So, to the extent that transportation is critical and crude oil is the main guy, we need to pay a lot of attention to it. But there's an equal, if not more important, side of things, which is other energy uses, such as industrial and others. So, let's start with the transportation side. As we're speaking right now, Brent is above $80 a barrel, and what the market's telling us is, what we call the shape of the market is in backwardation. So effectively, the futures are below the spot market, and they go down gradually to some sort of bottom medium-term price of about $70, which happens a few years out. So, in that sense, the market is telling you that there's some sort of premium for immediate availability through higher prices, and the market seems somewhat relaxed about the medium, long-term pricing.

If you actually think about other critical energy sources and think here, we need to look at natural gas in particular. Natural gas is hugely important. It's a key input in electricity prices, industrial processes. And unlike crude oil, which is very much a global commodity, so we all pay roughly the same prices pretty much everywhere in the world for that crude oil, which then gets refined into products and you pay different end prices for the product. Natural gas is a very, very regional commodity, and the US natural gas market, the Henry Hub as a benchmark, the domestic prices are currently trading a little bit over $2 of MMBtu, which means nothing to most people. But if you compare it or convert it into barrels of oil equivalent, we're talking about roughly $12 a barrel of oil equivalent. So natural gas is extraordinarily cheap on a relative basis to crude oil in the US. But the geopolitical dynamics that you were mentioning, Erik, and when you think about more global natural gas prices, which you track through what we call LNG liquified natural gas prices, you take the gas, you liquify it at very, very, very minus 200 odd degrees, and then you transport it, and then you re-gasify it. That's the way you can move gas from point A to B around the world without pipelines. That gas is actually trading very close to crude oil levels. It's more in the almost $75, $80 per barrel of oil equivalent. That means that Europe and Asia are paying dramatically higher prices than the US for such a key input which drives the competitiveness of the countries. Should the situation in Russia-Ukraine worsen further, and should the Middle East situation impact the dynamics further, both on the LNG or crude side, this situation could get even worse. And so, Europe and Asia, and this is something that I've been highlighting for a long time. The energy, competitiveness of energy, the US market relative to the rest of the world, it's been, in my opinion, a very significant factor that has contributed to the stronger US economy on a relative basis to rest of the world. And that situation is still there things like the US effectively dragging their feet and not allowing this domestic natural gas to be exported, created or give licenses for LNG, is effectively ensuring that the US keeps that edge in a scenario where there was sufficient capacity in the US to liquify and export that gas, then LNG prices would be global. It would be probably closer to the lower end of the spectrum, and that would put significant pressure to energy as a whole, globally. And let's not forget that LNG, whilst might be used for one industrial and other uses, can also and is actively being used as well for transportation, which is part of the reason why perhaps the very long-term picture for energy is not as negative from a supply and demand perspective as you might think.

But on the other hand, we have all these monetary phenomenon that is playing out, which effectively means that asset prices are going up, not because they’re worth more, but because the currencies we use to pay them are worth less, and that, I think, brings us into a very interesting dynamic in energy markets, where OPEC has been playing their hand really well. OPEC, by effectively limiting their production and keeping spare capacity, and they've managed to take the market where they wanted. They've made the inventory situation tight enough that they sent the market into backwardation. They have the ability to respond. They could tighten things more and they're also doing it in a way that there's no panic in the long term. Previous crisis like 2008, where crude was $120, we were in contango, and that pretty much invited people like the Canadian oil sands or others to come in and enjoy the ride. So, this situation is different, and some of the new potential solutions, like shale or others, or the long dated stuff is not that obvious. You know that they come in, and that gives OPEC a very strong position. So,

net, net, there are forces in both directions. I think the market is probably about priced, about right. Should there be a major geopolitical escalation, certainly the energy markets will react aggressively. But barring that, I think the situation is, there's no panic in terms of the availability of this in certain parts of the world, but others are tighter. So again, OPEC is playing a very strong role in this complex dynamic.

Erik: Now, just as we're recording this interview on Monday, mid-session, there's another set of rumors out on the internet that, okay, the big retaliation from Iran against Israel could be coming in the next couple of days before this interview even airs. How do you think about this? Because I've heard a couple of different views. Dr. Anas Alhajji has said, look, there could be a very big escalation with Iran. But what's different this time is, the other Arab states don't really want to back Iran. They want to de-escalate. They're not going to play the oil card. But the other side of that, of course is, look, if you get to a US versus Iran direct conflict, it's kind of hard for that not to be a major dislocation in energy markets. What do you see if there is an escalation of this Iran conflict, and if we get to the point of a direct US-Iran military conflict. Is that a really big risk event for oil prices? Or is it not that big of a deal for the reasons that Dr. Alhajji mentioned?

Diego: Well, it's a pretty huge deal for the world. I mean, we're talking about, nuclear powers. We're talking about regions of the world that are critical. And of course, it would be pretty major. I do agree, though, that in some ways, Iran is, what we saw with Hamas and all the terrible things that are happening. And it's almost like a provocation for something to happen and rally. Effectively, the entire Arab world against Israel. If you visit the region as Middle East, as I do on a regular basis, you go to places like the UAE, you will see quite extraordinary developments. And through the Abraham Accords, and the Louvre museum showing the unity of three, the entire message is all about, we're all the same, and how different cultures from the Arab world to Asia to Europe to everywhere, have been effectively dealing with things like death and gold masks in a parallel fashion, forever. There's a very strong message with the synagogues, with churches where the architecture is done in a pretty impressive way, where they're exactly the same size, similar style, but different, different things. So, there are, I think, incredibly positive things happening in the region, and there are people that are seeing those and perhaps trying to force a situation that will basically put their back against the walls and have to make some choice. And so, it makes things extraordinarily difficult, but to the extent that the US is directly involved with Iran, I think that would be huge in so many ways.

Let's not forget that as we're speaking as well, and over the weekend, we have Ukraine effectively stepping into Russian territory. And again, we're talking about nuclear states. And if you're Putin, what do you do, right? I think for a while you're sort of attacking and trying to settle by keeping certain areas as consolidating as yours, and maybe saving face by taking additional territories. And now, suddenly you see yourself losing ground and how Iran and Russia played together, and the role of China, this is really not something we want to see getting worse. And when you think about energy crisis, there are two key things to worry about. One is the availability of the molecules, and the other one is prices. And during the Russia-Ukraine war, we saw Germany effectively, and the whole of Europe trying to protect itself against the prices through energy subsidies, which effectively meant we're going to cap the prices. We're going to

print Euros to subsidize it, and we will pay whatever it takes, and the consumer will not be hurt, which effectively was a simple way to dilute the Euro and print and borrow, and transfer and transform, and delay the problem. The second part, which is, do you have access to the molecules? We have factories shutting down, because you couldn't, beyond the price, you just couldn't get those things physically. And that has done damage that has been, in some cases, permanent. So, it's a phenomenally important field. And you know, Europe is still very vulnerable. And I don't think the US will want to get directly involved. They're the biggest beneficiary and winner of having all these wars, have played far from them, and they have this major advantage of extraordinarily low natural gas prices. So, I think this situation is benefiting the US significantly. A deterioration of the situation would improve the US situation even further, that if you were to go into an escalation where the US is directly involved, I think that changes the game, and it would be extraordinarily major. I mean, it would make last week's events look like a walk in the park.

Erik: Let's talk about precious metals next. You know, it seems like it was only maybe a decade ago that central bankers were very much in the habit of ridiculing gold bugs and just laughing it off, saying, look, gold is a barbarous relic that serves no place as a central bank reserve asset in in today's economy.
That was 10 years ago. Right now, central banks are buying gold hand over fist. What gives?

Diego: Now, clearly, I think gold has played a very important role. We talked about commodities in general, and energy in particular, just now. They are quite different to gold. I mean, gold has, a significant part of gold is monetary, is central bank. It is obviously a commodity as well, and it has industrial uses and other things. But I think gold, in subtitle of my book was, ***The Anti-Bubbles: Opportunities Heading into Lehman Squared and Gold's Perfect Storm***, I have long believed that the setup, from a monitoring fiscal perspective, is one where the end game will be, this spiral of devaluations where the degree of freedom of the system is inflation and these currency devaluations, which we've discussed at length earlier. And I think gold is a major beneficiary of this. I think the other key factor to watch is, Russia basically invaded Ukraine, and we effectively decided that it was smart thing to seize Russian assets and effectively challenge the freedom of money and the SWIFT system and other things. That effectively was a very clear sign for China or anyone else to say, look, if you invade Taiwan or whatever, I know you have a lot of treasuries, but we're going to, those are going to be ours or frozen. So, I think that moment sort of bifurcated the world, in the sense that signal was given to open new, alternative ways of decentralization. And I think gold, again, being gold, and for its unique characteristics, has been a big beneficiary of that. And I think that trend could continue. But gold is gold. I mean, it will have its major drawdown, to have its move up. But I think, eventually, I've long held the view that gold, at the time of writing, I said gold has a few $100s of downside, a few $1,000s of upside, and I still think that's the case. So long term, it has a role to play, and central banks are part of that, but they're not the only part. I think gold has something to say in the system, is not the ultimate solution to money, but I think the output for gold, in my opinion, is attractive in the medium, long-term. It has been for a few years, and I think still the case.

Erik: Well, Diego, I can't thank you enough for a terrific interview. But before I let you go, I want to touch on your most recent book, which is actually still several years ago. You're probably best well known for the book that you co-authored back in 2014 with our friend Daniel Lacalle. That was, ***The Energy World is Flat***. But I think the book that's probably more relevant to current markets is your 2017 book, which was called ***The Anti-Bubbles***. Tell us a little bit more about that. One, is it relevant to today's market? If so, in what way, and where can people find it?

Diego: Yeah, look, I think first thing is, you write for yourself. You try to understand your own ideas. And I've been very blessed that, some of this work has been shared and has been helpful to other people, but I do think both were and continue to be frameworks that try to provide effectively, a way of thinking about these challenges and these dynamics. And the anti-bubble framework introduced the concept of anti-bubble, which, if we were to borrow George Soros' definition of bubbles, we could think of bubbles as assets that are artificially expensive based on a misconception, effectively a false belief. So, from Soros' perspective, bubbles are assets that are artificially expensive. It's a matter of when, not if, that they will go down, and they're very much linked to this idea of a misconception. What I did is, I generalized the framework, and I said, okay, misconceptions can distort reality, but not only through artificially high valuations, they can also do it through artificially low valuations, which is what we call an anti-bubble. So, the first dimension of the concept is this idea of extreme value assets that are grossly artificially cheap. The second dimension is, because they're both mirror images of the same misconception, bubbles and anti-bubbles will move, will implode and explode at exactly the same time with exactly the same catalyst. And that's why I called it an anti-bubble, a bit like an anti-virus, an anti-missile, so defense mechanism against the bubble. And the third one, which is very important and very relevant to today's markets, is the reflexivity of the relationship where artificially low volatility contributes to artificially high prices. So, think of the S&P and the VIX, for example, and this happens both qualitatively and quantitatively. I mean qualitatively, is this perception that mommy and daddy, the central bank, put there to support us. There's no risk. It's complacency. Quantitatively, we have CTAs and trend followers that effectively lever themselves up as volatility goes down and they're forced to cut. So I think what we're witnessing today is very much reinforcing the thesis, both from a macro perspective of what it means, in terms of the fact that we're not solving problems with monitoring fiscal, we're delaying transferring, transforming and enlarging them. But also, mechanically in terms of how we construct portfolios, the important thing and the work we've been doing, and in portfolio construction, I always use the analogy that investment portfolios are like football teams, like soccer teams, right? I'm Spanish, so you know, you have strikers, midfielders, defenders and goalkeepers. You need to create this team where each player needs to do their job, right? So, equities and credit make money. They score goals, defenders and goalkeepers defend, and there's a very important role. But then together, they can effectively compound through rebalancing alpha. So, I think all this framework, again, it's, I think, quite relevant beyond the books. People can just reach out through Twitter or X, @ParrillaDiego, or LinkedIn. We run monthly newsletters and calls, and we run some strategies that might be eligible for some people, and very happy to share details.

Erik: Well, Diego, thanks so much for a terrific interview, and we look forward to getting you back in a few months for another update. Patrick Ceresna, Nick Galarnyj and I will be back, as MacroVoices continues right here, at macrovices.com.