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# Lead Left Interview – Tim Hopper (Part 2)

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**This week we continue our conversation with Tim Hopper, founder of Macro Fund Advisors. Previously Tim was managing director and chief economist for TIAA. Tim has over 20 years of experience writing and speaking about the global economy. Prior to joining TIAA, Mr. Hopper held various leadership positions in global banking and real estate. He also served as a senior economist with the Federal Reserve Bank of Dallas for over 10 years.** ***Second of two parts – View part one***

***The Lead Left: What about the deductibility of interest expense? Is that at risk?***

**Tim Hopper:** Too early to tell. If it isn't a permanent fixture of the reform, it is possible that we could still get deductibility temporarily for a number of years to spur growth.

Going forward, the business cycle will look more normal. Interest rates will be higher than you think. We're talking 3-4% down the road, not 2-3%. People forget that past cycles saw 5.5% ten year T's. We might even get to 4% time.

It's been different with this cycle. This was a credit cycle, not an industry cycle. A credit cycle takes longer to fix. But the good news is we are through the credit crunch. It's no longer an issue, and that means growth can finally accelerate.

***TLL: So what exogenous issues could derail us?***

**TH:** The traditional things mostly look fine. Excess corporate debt issuance is something to keep an eye on, but generally there are no industrial sectors overheating. At the moment the real concerns lie overseas in exogenous political issues.

***TLL: Like North Korea.***

**TH:** North Korea is really about the US and the West learning to live with a nuclear North Korea. They have the capability and any attempt to reverse that capability would end with tremendous bloodshed. But since we aren't staging for such a conflict (such as moving military assets to the region), it is unlikely that we will see physical conflict erupt in that part of the world. The strategy seems to be firm realism.

***TLL: How about Iran?***

**TH:** As we saw, Trump refused to ratify the nuclear agreement last week, but he stopped short of calling for the US to walk away from the treaty.

***TLL: Next on my list of concerns is Brexit.***

**TH:** What the British public hasn't discovered yet is that they won't get as good a deal out of this as they think they can.

***TLL: Could you re-vote the whole thing?***

**TH:** Possibly, but highly unlikely. The reality is they will have to go through a recession to untangle their relationship with the EU. And at the same time, of course, everyone – the Fed, the ECB, and the Bank of Japan – is or will be unwinding their balance sheets. This will slowly push rates higher and increase stresses on the British economy at a time where they could use every ounce of growth they can squeeze out of that economy.

***TLL: Where do we stand with China? Will we end up in a trade war?***

**TH:** No. We're in a dance with China. We're trying to get better terms. They are too. In the near term I don't see any major issues. China has its own problems. They're not new ones. They've overextended their credit. They have both monetary and fiscal policies that don't fully account for the policies they impose. But it won't blow up anytime soon.

You remember what happened in 1997 when both the Thai baht and Malaysian ringgit imploded? China has the capability to throw resources around. They could spend $3 trillion on the economy to fix almost any problem. Yes, it would cost them their reserve account, but the real impact would be on the smaller economies – Thailand, Malaysia, the Philippines, even Vietnam.

***TLL: What leading indicators does Tim Hopper keep an eye on? What's the Hopper Index comprised of?***

**TH:** (laughs) Everything! And I talk to everybody. I look for deviations in the big trends and gaps in the data that aren't easily explained. Economic growth ebbs and flows and once you understand the pattern, it's not too difficult to see where growth should head in the near term. It's when growth zigs when it's supposed to zag, where you start to raise an eye brow, and that's really what I'm looking for all the time.

***TLL: So what's the message for your clients?***

**TH:** What I do best is identify fundamentally mis-priced macro variables and provide a strategic framework to capitalize on that deviation. This will provide conviction about your macro thesis, will alleviate the uncertainty of investing in a foreign market, and reduce the risk premium associated policy uncertainty.

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