**Nick:** Hello. Today is the 2nd of March and time is flying by what happened last week. That was of any note. Well, not a lot. Really. The bond auctions, although it was a lot of supply went reasonably well. So the bond market is fairly well bid at the moment. It's very hard. For the market to push lower than the three cuts that the Fed is anticipating for 2024 and in stop plots, we will discuss later whether that is a reasonable assumption or not, but at the moment, the market is certainly sticking to the Fed's projections of three cuts.

The economic data continues to be reasonable. GDP now came in at 2. 1%. So the economy is doing just fine. And because the economy is doing just fine and the bond market is not doing worse, they took the opportunity to squeeze the hell out of high beta stocks, which makes some sense, but we are definitely in a bit of a bubble now.

What do you think, Andy?

**Andy:** Yeah. So going back to the week that we, the thing we highlighted and also said it was unlikely to be much of a big deal is the PCE inflation print came in warm as expected and certain measures like the Thing that Powell specifically says is his guidepost for the direction of inflation came in pretty warm.

So, but again, it was not much news. And so, as Nick said, what the reaction to news is regarding the Fed is what happens to the cuts expected in 2024 and they moved to a, what, a little under three cuts at one point this cycle, this last week, and ended. Almost at four cuts. So, that's the range that we'd expect the short term interest rate to go and what pushed them to more cuts by the end of the week, I guess it closed around 89 basis points of cuts was a weak ISM number, which is a survey data.

Prices paid and outlook for the economy, manufacturing and services, et cetera. And that was Friday's news. And the market said, well, there's a bit of the first week data we've really had in a while. Let's. Push cuts back into the front end of the curve, which caused the long term bond yields to fall a little bit, which supported equities.

And so we ended the week with a little burst of high beta stock returns. We shouldn't. We, we last month, last week said we should swap out of commodities into gold and that proved fairly prescient as gold outperform rallied a lot, but so did commodities. And that's also consistent with, a sort of strong bid for assets broadly as the feds cuts get increased again. And so we saw gold rally a lot on Friday. And I think when you put all that together, you just look at a range where bonds and stocks are going to continue to rely on the outlook for fed policy.

**Nick:** Yeah, no I completely agree with you.

All the stock market seems to need to do better is stability from the bond market rather than an improving bond market. And that's what we got last week. I think, as you said, it's very unlikely that the market will give up on the three fed cuts this year. If it does, it's going to be a postponement as opposed to an argument With what the terminal rate of cuts will be, so they'll postpone something from 2024 and put it into 2025, which tells me that our position in the belly of the curve is fine.

We might be 5 basis points on the water or 10 or 15 basis points above water, but that is going to be the range for the. Time being, and that encourages people to go and buy the meme stocks and, squeeze the high beta what, struck me is that the Dow really did absolutely nothing last week.

In fact, it ended down. So it's not equities being bought. It's these high beta equities that people can squeeze and that might continue for a bit. But I'm quite happy with the position that we have. What do you think about next week?

**Andy:** Yeah, so next week, you've got jobs, you have no auctions, you have jobs data, all the jobs data that we care about, which should be warm, because it's always been warm and there's no sign of it.

Turning yet. And you have 2 testimonies by Chairman Powell on the Hill on Wednesday in front of the House Financial Services Committee and on Thursday in front of the Senate Banking Committee and. While making news is a possibility, he can always make news and say, project his thinking on what's happening with the economy.

More likely he will avoid that because the following week he has. very important CPI and PPI data, which will either support this idea that inflation is stabilizing at too high levels or not. And I think if he had that data in his pocket, he could potentially make news, but he won't.

**Nick:** Yeah, I think it's very unlikely that it will want to make news.

What's his upside? The data is not out yet. And this month's data on. Both CPI and NFP to a certain extent is going to be very important because. We both think that there are significant odds that they increase the median dot plot at the next meeting. We shall see, because all it's going to take is a couple of people not going for three cuts, but going for two cuts.

And that's Could increase the dot plots by call it 20 basis points to which the market at the very short end will certainly respond But we think that the long end will respond too and equities might not really love it either Although I think they will probably Sustain it better than than the bond market, but that is the danger.

That's the danger side as opposed to the other side that they, come out with four cuts for 2024. That is very unlikely. The economy is doing just fine. The balance sheet of the consumer is in excellent shape. There is absolutely no reason for them to accelerate or anticipate their cuts. And as Wallace said in his speech.

What's the hurry? So the Fed is on hold, but that seems to be all that the equities need to keep on pushing and seeing where the top is. We'll know when the, where the top is because the market will tell us it's not now and this will probably continue. So there are really no changes to our macro views, are there Andy?

**Andy:** Yeah, I mean, we'll have to see the data. I think the only thing, the only overwhelming thing that for me on our macro view that is not yet doing much is term premiums on bonds remain depressed. And you saw PIMCO and some of the other bond managers also speaking, and even Waller's comments during his speech on Friday, all suggest that.

Long term bonds are not the place where you want to be invested, but the market doesn't seem yet to have gotten that memo and they seem quite rich. So the question is why and, we'll have more on that as the, as this month. Plays forward, but 1 of the ideas is that the. Terminal rate. Will depend on whether the Fed decides to allow inflation to stay higher for longer.

**Nick:** Yeah. I think the risk reward in long term bonds is bad. And investing is all about probabilities and playing the odds. Buying long term bonds here seems to me a very low probability outcome. Certainly the belly of the curve is where you should be positioned if you want to have bond exposure, because you're covering both eventualities, you're covering the eventuality of the Fed easing, and you're also covering the event you're going down the curve towards the twos and the ones and the terminal rate, which we still expect to be around three and a quarter, three and a half, maybe three and three quarters.

But at this pricing, you're minimizing your downside and maximizing your upside. So if there is a hiccup in the economy, you'll make a lot of money. And if there isn't. And the, and it's higher for longer, you will lose the least. So it seems to me that this is where you want to be as we are positioned the long term, if you buy long term bonds, you're really speculating on a much lower terminal rate.

And which is unlikely to happen in this environment and also some kind of very low very low term premia, which also it to us is low odds. So we would advise you to avoid them. So something like TLT is nowhere near as good as a buy as something in the belly or at the short end, but that is just where we are.

And that's what the odds tell us. Anything that we should change in the portfolio to make it slightly more aggressive?

**Andy:** Right? So the, I think our strongest view is the economy is okay. There's a possibility that inflation is a little higher than and stays high for longer and that policymakers, will reduce interest rates, but not.

Net not as much as expected in a sort of higher for longer environment. And so with high beta stocks, stretching valuation I think the idea is we should look for areas in the, both the commodities, gold and equity markets that reflect our view that. Things are going to be higher for longer.

What do you think viable candidates are at this stage?

**Nick:** Specifically, the most viable candidates are things which the market has neglected for a very long time. And which are genuinely cheap So one of the ideas that i've had is european banks because those are trading at 50 Basis points on the dollar in terms of book value And a higher for longer scenario where the ecb and we haven't mentioned we have an ecb meeting next week, which is likely to punt Into the long grass just like the fed is likely to punt into the long grass That actually should help European banks, which are nowhere near in as bad a shape as they were 2,3,4,5,6 years ago, they have really recovered and why they're still trading at 50 cents on the dollar in terms of book value is a bit of a mystery to me.

The higher interest rates stay, the more the bank should profit. And it makes sense to me too. Nibble away at something like European banks, but it also makes sense for me to nibble at something like gold, because if they tolerate, if the central banks tolerate a slightly higher inflation rate. For slightly longer, which is, one of the arguments that we've had for a while that inflation is going to be sticky.

People are going to be buying gold just to protect themselves. And also that is good for something like XLI or even Mexico reshoring. So we should look for opportunities to add slightly to these. Underappreciated assets for a long time and see if we can pick up some value.

**Andy:** Sure. So, right now our portfolio has plenty of cash, so we can just go ahead and do that.

And those seem reasonable ways to, express our view of Higher for longer. We have were short calls through March 15th on QQQ, which will take our equity position down to 21%. And this will add that sort of growth at impact back. We can spend our cash now and then wait and see, the QQQ calls that we sold are right at the money.

And wait and see what happens to those. Is that the sort of think way you're thinking about it?

**Nick:** Yeah, we have plenty of cash. We can deploy, 7. 5, 8 percent now and see what happens to the QQQ calls. We can talk about that next week after we've seen what Powell says, or we can send out an email and get out of those.

We have lots of flexibility. So there is absolutely no reason to rush into anything, but I'll cover some levels of where we should add in my next segment. Sounds great. Excellent. Speak to you next week. Let's have a look at the portfolio. This is what we did last week. We swapped out two thirds of the GSG for gold while maintaining the allocation of the two fairly constant.

So now we have 292 shares of GSG and 66 shares of gold. This is like a couple different from what I said I would do, but when I re weighted, I came up with these levels. So this is what we have. Here I have assumed that we will be called away on the 442 calls to the 15th of March in QQQ, although that is by no means certain.

So what we have is what the portfolio would look like if we were called away, and I've put the amount in cash, although we don't have this cash. We have 159 shares and we are short the call, but this is what I'm assuming it would look like because they are in the money at the moment. Naturally, if you look in broker statements, you will see the exact accurate positions.

But to come back, this is what it would look like if we were called away. What do we want to do for next week and why? Now we think there is a distinct possibility that the Fed tolerates a higher inflation level, something like two and a half percent, for quite some time. The odds of them hiking rates are just about zero and therefore we I think that they would never admit it, but that they will probably tolerate a little bit of higher inflation for a little bit longer, which should be able to give gold an extra leg up.

So we want to slightly increase the gold allocation, but we also want to add To the real economy. So what is EUFN? That is the European banks that we mentioned that are trading at 50 cents on the dollar in terms of book value and longer. A longer time of. Interest rates staying high, but inflation also eating away at value should help the banks to get their house even more in order and get that huge deficit.

that they're trading at to book back towards book. So you don't need a lot of EUFN to make quite a bit of money out of it. All you need is for the for the market to start valuing European banks back towards book. And that will go up a hundred percent. That is why we're only adding two and a half percent.

If the economy stays stronger as we think. It will then XLE should have quite a bit of potential and we still like the industrials. We still like ETA and we still like the onshoring, which is EWW for Mexico. So we are adding 1%. And 2 percent to each for a total add of about 10%. How are we going to do that?

Well, fortunately enough, we have exactly 10 percent in USFR, which is cash, and we will get rid of that cash and add. These amount of shares to, for these percentages next week, because the amounts that we're adding are so small, we're not going to bother to do it at a certain level or anything like that.

We're just going to buy them on Monday and you can take your time. It's not going to run away on Monday or Tuesday. Whenever you have time, you just add a little bit of the time and that should be absolutely fine. I also wanted to remind you that all these charts are in the links. So as you can see, GLD is about to have an impulse hire.

And we, we think that is justified. GLD could easily have another leg higher or four or 5%. And UF, EUFN, this European banks, we think that also it should be going higher and it is making new all time highs and we think that a 10 to 20 percent move here over, the course of months should be anticipated because it really does make sense that something which is traded At 50% of book value when interest rates are high and remain high, could go quite a bit higher, and we are not risking a lot.

In any case, all these charts are there for you and we think that you should look at them regularly. And maybe even put in certain levels that you think that things are attractive at and buy those levels rather than buying at market, which makes perfect sense to me. If you look at something like ETA.

We, I bought it for myself down here at 0. 618 and we think that you should be looking at these technical levels over time and, familiarize yourselves with these levels. I tend to mark them and Just play it for yourselves. It makes perfect sense. And lastly, I wanted to mention something that we will be instituting in the next couple of days.

We've, some people have had problems with receiving the emails we send out with updates and emergency action as it were. We will be adding it here. We'll be adding a like a blog post area, and as well as sending you the emails, we will also, all these blog posts will be available here, and they will be linked to the Twitter account, and Every time a new email is sent out, the blog will be updated and the Twitter will be updated.

So please look out for it and subscribe to the Twitter if you don't have it and turn on the notifications because quite a few people had difficulty for whatever reason receiving the email update and we don't want that to happen to you. So we're instituting this belt and braces approach and we hope to resolve the problem that way.

Thank you very much indeed and have a lovely weekend.