Nick: Good morning. Today is April the 6th and after our Easter break, we are back with you to discuss what's been happening for the past two weeks and also what's likely to happen this week. Really, the U. S. economy continues to surprise to the upside and all data we keep on getting keeps on being strong. If not on fire, then certainly not weak.

This week we had the NFP numbers and those were very strong. The only factor mitigating factor was that wages did not rise as much as expected. So the bond market was not hit as badly as it could have been. But otherwise, everything is strong Andy, isn't it? There's absolutely no reason to suspect that this economy is not going to continue doing very well in the medium term.

Andy: Absolutely. This has been our theme for since the get go, which is that the economy is doing fine. And we don't expect that to change in the near term without some significant changes in in market prices and fed actions and potentially don't the actions post election.

Nick: Yep. So basically it's a continuation and let's not talk about what's in the rear view mirror, as it were. But what is coming up next week, because next week is going to be very important. We have CPI and PPI. We have very big auctions. We have a total of about, 110 billion or so in threes, tens and thirties.

We have the FOMC minutes, which could, give us shed some light on the FOMC's decision to keep three rate cuts for 2024. And also we have the ECB, the the Bank of New Zealand and also the Bank of Canada giving us their interpretation of what is happening to their economies. But let's start off with CPI because that's going to be the important one, isn't it Andy?

That, that is going to decide market pricing. For quite some time, especially at the short end.

Andy: Yeah. So the key thing here is that, between now and the May meeting, this is our last inflation print. And while May is pretty much off the table, I can't imagine anything that would cause a cut in May.

June is very much on the table. And so this will be the piece of data along with the PCE, which will come out during the meeting. That the Fed will have to determine have they generated additional confidence in the path of disinflation toward their target. And so that'll be taken seriously. And really what it will do is affect the June, the pricing of a June cut now how much it will affect it will depend on a variety of things, but we then get the data for April in May, and then we get the data for May in June, while the FMC is meeting on this potential.

First cut.

Nick: So what do we think is going to change in market pricing? If the CPI is hot and if the CPI is cold, I, a lot of people are expecting this CPI to finally come in line or better. I am not so sure. But then again, what would I know ahead of time? I just know that equities keep on being bought.

I know that gold keeps on being bought and I know that real rates are staying high. So do you think we're going to have very big changes in pricing according to the CPI or do you think. This is very much a Goldilocks and we continue along that path.

Andy: Yeah, I don't think there's going to be major commitments made to markets based on the CPI.

We do already have all those things that Nick just said. And we do have supply coming this week. So there's, a fair amount of Other things happening besides the CPI, but I think what you will see is if there is a cool number, meaning inflation is once again, we're headed back toward target.

The immediate thing will be an establishment of a fairly high odds of a June cut, and that will affect two year bonds, particularly, which should rally. And the question is, how far given we don't know how many cuts they will do once they begin to cut or if they'll be able to cut it all given the data that we get between now and when they make their decision.

So I think you get some reaction in the front end. And then that will Pulled down long term bond yields a little bit, but not much given the amount of supply is out. So that would be my expectation on the bond market. I don't see that having any negative, even though people like to think of gold as an inflation asset, we tend to think of it as a real rate alternative or tips alternative and a potential fiat currency, just, weakening asset.

And. A slightly negative inflation print is not going to take the legs out of gold. So we wouldn't expect it to fall meaningfully on a slightly weak inflation print. Equities, they're going to do what they're going to do. They Would likely rally on a weak inflation print. So I think that's the broad scope of things.

A hot inflation print would have the opposite reaction in June rate cut expectations. My guess is it'll come almost fully off the table, maybe a 10 or 20 percent chance, but nothing like and that would have probably have more of an impact on two years than a cold print in that you might get some of the.

Future cuts priced out of the market besides the June cut, and that might have some negative impact on long term bonds as well. So I think a hot print probably has some asymmetry to weaker bond prices, but that should cause, because of sentiment, a hot inflation print, I think, will cause gold to ramp, which it probably shouldn't.

Nick: Yeah, and that is, that would be the interesting alternative. I think that we should probably reduce our allocation to gold if it is a hot inflation number, because I don't think inflation is certainly not bad for equities. I really wouldn't mind if it is a hot number on a ramping gold to sell some gold and allocate more to towards equities and commodities.

Andy: Yeah, I think that's interesting. Let's just review where we are just so everyone remembers. We have no nominal bonds at all in our portfolio. We only have tips, which are inflation protected bonds of medium duration equities across a variety of us equity indices gold and commodities and cash, and that's our whole portfolio.

And that's a portfolio that says. economy is strong, conditions remain easy. The central banks continue to actually do cut even though the economy is strong. And so for us, we're trying to think about when we would want to sell something in the event that the economy The Fed is, and other central banks are forced to slow the, try to slow the economy and a hot inflation print may force them to do that.

And so we're looking at our assets and we think gold will spike the most in that circumstance. And that may be a good opportunity to sell some gold and buy some more equities and more commodities.

Nick: Yeah, but that is something that we can only decide after we've seen the number. We just want you to be aware of our thinking.

We think gold has gone a long way. There are many reasons why it's done so, whether it's China, whether it's dollar weaponization by the US against Russia, many reasons are possible, but it's completely disconnected from real rates. If you live in the U. S. or in the western hemisphere, you are really not afraid of all these possibilities.

And therefore to get a real return in excess of CPI is extremely attractive and gold does not provide that. So if the Chinese ramp gold another hundred bucks why not let them have it? And buy something productive for the long term and there are many areas of the world Which are doing extremely well One of which is Argentina, where Argentinian bonds since the election of Millet have rallied hugely.

And that is now filtering through into the economy and the Argentinian stock market is beginning to do very well. The onshoring story continues with Mexico making new highs. So let's try to take this opportunity. Shoot gold spike. To make some sizable reallocations in the portfolio to take into account what is going on in the real economy and in the real world and not really care about the fears of the Russians and the Chinese.

Andy: Yeah, I think that's a great idea. Gold was the absolute thing to own over the last year, almost all of 2024, but really mostly since February and we owned it and we're going to continue to own it. But the idea of, taking some off the table and reallocating it into on shoring, de globalization, trending commodities, rich, Equity sounds like a great idea.

Nick: Yes. And that is something that we will send you an email about. We'll get everything ready for you. And as soon as we've seen the CPI, we'll send out an email before the market open. So you're ready to pull the trigger and we'll give you levels as well.

Andy: Have a good weekend and into next week.

Nick: See you next week.

Our portfolio continues to perform well within the volatility of the market. We are now at new highs, even though we had a pretty volatile week in equities, but the various components keep on going. offsetting each other and we're making new highs. As we said, we will probably make some pretty drastic reallocations according to the CPI number, so please be ready for an email to come out.

On Wednesday and we are having, we're putting in no limit orders at the moment, but we will send you an email on Wednesday before market open. What are we likely to do? We are likely to be selling some gold and adding to equities. We might even reduce our cash and also our tips allocations.

Depending on how hot the number is, or if it's hot, if it's not hot, we will probably keep them. But we certainly think that reducing gold and upping commodities and or upping some equities makes sense because gold prices are now beginning to be completely, how shall I put it, outside of the realms of reality in the long term.

And this is a long term account. We don't mind if gold goes up another 5 percent through our levels if we sell it because we want something which is productive from the for the long term and that is going to be equities and to a lesser degree commodities. Thank you very much indeed and expect an email from us on Wednesday in either case.