Nick: Good morning. Today is the 20th of April and another episode of Two Gray Beards. We've had an exciting week in the market, Sandy, haven't we? Yeah. A lot of selling.

Andy: Yeah, sure did. Big sell off in the NASDAQ in particular. Dow was unchanged for the week.

Nick: Yeah. Lots of rotation. And, a lot of people ascribe this to geopolitics, but we don't think it's got anything to do with the geopolitics.

Geopolitics might have not helped, but it certainly didn't cause this. What do you think is going on?

Andy: Yeah, I think it's continues to be consistent with the idea that the Economic data continues to be strong, certainly not showing any signs of weakness, and inflation data is warming up relative to the Fed's desired trend.

And that's having an impact on Fed rate cut expectations, which are Falling away. And even some are now talking about hikes, which is premature. And that's impacting the long end of the curve which is starting to weigh on equities. And we started to see earnings and the reaction to earnings has been pretty mediocre.

So there were a lot of expectations built in.

Nick: Absolutely. No, we, all the earning reactions, even though the earnings themselves weren't bad, were pretty awful. You had Netflix falling away by best part of 10%. You had the semiconductors getting absolutely slaughtered on the back of very good earnings by Taiwan.

So those are the reactions and those reactions really come from a lowering of the forward multiple caused by the realization that bond yields are going to have to stay high. If not, even go higher as a result of what the inflation is doing. That is basically it. And the geopolitics, while it certainly didn't help and frighten some people, was really just an excuse for doing what the market was going to do anyway.

And just accelerated it. As opposed to caused it. So what do you think we should do and what do you think is going to happen next week and what are the prospects in general?

Andy: It's you know, i'm focused on the week after next for the quarterly funding announcement and the FOMC But next week is pretty chock full of News and information and the markets have dislocated in a way that could provide some opportunity.

But what we'll be looking at is the data and the economic data is largely PMIs, durable goods. And at the end of the week, you have GDP and the PCE, and it'll be the first estimate for the Q1 GDP, which, that'll provide some economic strength information probably pretty strong. The PCE is something the Fed watches carefully, but it's also predetermined by the CPI and PPI.

So that will probably be a nothing event. But then we also have Sizable government bond auctions, 183 billion of twos, fives, and sevens, and then a whole raft of bills and floating rate notes that are normal. And so the market, the front end of the yield curve will be challenged to absorb that supply.

And that'll keep bond yields low high relative to the rest of the week. And I guess lastly, then we have earnings and major earnings. So it's a. It's a week mostly where I think Sitting on our hands makes sense and waiting for the following week, but we could see some volatility.

Nick: Yeah, absolutely meta microsoft google Tesla as well, although that's becoming a minor issue, but certainly if those if the reactions to the earnings is much the same as we've had so far, the QQQs are going to be challenged and every other sector far less.

As you, as we said earlier the Dow was unchanged on the week. And it was the tech sector, which. Brought down the SMPs and the QQQs got destroyed because it's all tech. So that's where we are and we are probably going to get a continuation of that next week. I certainly think that the the tech sector has got.

Probably twice as much to fall as all the other sectors combined because the bond yields are not going to start rallying for no reason, certainly not before Q. R. A. So that's the story for next week and what we will discuss and prepare you for the Q. R. A. Very fully next week, but for this week, I think all the action is going to be in the tech stocks.

What do you think?

Andy: Yeah. So I've been very for my alpha portfolio. I've been very short equities for too long, but also recently re upped a major what in a major way and I covered I do agree that their equity market looks awful and it has sold off significantly led by the Dow and now the S and P and QQQs are catching down and I'm still bearish, but I did cover all my shorts and actually made a speculative long for next week, expecting some bounce, some which may or may not come.

So from a speculative standpoint. From an alpha standpoint, I think it was a good time to cover shorts, but not because I'm bullish and I even bought not, and I wouldn't take much from buying some NASDAQ calls, which I did as bullish. It's just, we've come a long way and we may bounce now. What is important is next week, not this coming week, but the week after and the outcome of the quarterly refunding and FOMC.

And. To take any big risk or any decisions to reallocate our portfolio, we really need to see that outcome. And so that'll be our focus for next week's call. And this week's call is mostly sitting on our hands and not making big bets.

Nick: Yeah. Now we do have to manage our one by two, but I'll discuss that in my segment.

And. Anything that you think would help with I don't know, let's call it hedging or pre hedging the QRA.

Andy: Yeah, I think market expectations are for a for the, at least raising the possibility that the treasury will reduce the amount of net coupons issued. And I think there's, I think that's a lot of hope, but I think there is at least some people that expect the treasury to work in a political fashion and try to pump the economy and the market by using the only lever they have, which is reduced coupon issuance.

And so I think that's partly priced into markets. I think that hope will be dashed. And if so, you if it is dashed, you certainly don't want to own. Long term bonds, but October 31st created a case that may others may be betting on. That the treasury is willing to pause increases or in fact, decrease coupon issuance next week, the week after next in order to save the market and the market reacted extraordinarily strongly.

So I think the question is for us is whether we should buy a little bit of duration, which we by and large, don't like. In fact, don't like it all as a hedge to a QRA result that may actually be bullish. Yeah. And so I would think a little TLT, but I wouldn't fund it with equities and I wouldn't fund it with gold which I think will scream if we're right, I'd fund it with tips.

Nick: Yeah, no, TLT is basically tips and steroids and being in tips, we've avoided the the massacre of TLT in the past couple of months to a large extent, and therefore, maybe switching a quarter into TLT from tips, and then we are nicely hedged in either case, and then, The week after next, we can completely change the allocation if it's warranted by the QRA and by Janet Yellen's actions, I agree.

That's probably the safest thing to do. Great. I'll discuss that more fully in my next segment, but for next week that our macro expectations are unchanged and we sit on our hands and wait for the week after next. Thank you very much indeed andy. See you soon. All right, let's discuss the portfolio Unfortunately, we were a week out on our prediction about 496 so we have this one by two So we're long of the 515 puts and we are short two 496 puts which actually expired in the money So we would be 130 30 Long here if it expires here or lower next week Which means that we'd be about 50 percent in in equities and would we would have Something like 20 percent in cash now.

We are a bit uncomfortable with that so what we would propose and I put that in the order entry is to buy one for 1496 put and by two by ncell two of the 485 puts because if we get down to 485 then we really do want to be long of equities But it's a very risky proposition because then you're going up to about 70 in equity So I just want you to be aware Of that risk.

In any case, we have plenty of cash. We can afford to do it and we can afford to rebalance the portfolio if anything like, bad like that were to happen. So we are leaning towards doing that. We will buy one 496 put and sell two of the 485 puts. What you could do is you could just take off the the option play entirely.

It's profitable and therefore there is no reason not to do that. If you don't want to run that risk, we will run the risk because well, why not? And the other things that we're going to do is we're going to sell a quarter of the position of tips, which is 138 shares. And we're going to buy TLT for the equivalent amount of dollars, which is 165 shares.

And that is actually Taking down this tip allocation to 15 percent and the TLT allocation up to 5%. So we're not changing the amount. That we have in the bond portfolio, but we are just changing its composition. Everything else is updated the monthly performance, the weekly charts, and also naturally the broker statements.

And it's important that you should actually see what the what the one by two is, and hopefully I can actually enlarge it. Yes, here we are. The 1 by 2 is actually up money as you can see, so you could easily just close it out if you don't want to run any more risk. We will continue to run risk because at that level of 485 in the S& Ps, we really think that it's a bargain too.

at least bet on the Qra that comes the week after and there's very little likelihood That the market goes into the qra At that level so that's our preference. I understand if it's not everyone else's But that is what we're going to do. Have a great week and speak to you next weekend