Nick: Hello. Today is Saturday, the 18th of May and another episode of Two Grey Beards. Well, we built up last week like nothing on earth with CPI, PPI, retail sales, unemployment claims, and at the end of the day, they were all much of a muchness. Very much as expected really So the market at the end of the day certainly in the bonds very much Unchanged really equities did rather well as we thought that equities would trade better than bonds But let's go through the figures and see what we think.

So ppi and cpi Slight miss in PPI. So, as a result, we're getting core PCE expectations for the end of the month. And don't forget, this is what the Fed targets. The core PCE around the 2. 6 for the month. And that would give us around 2. 77, just below 2. 8 year on year. So really nothing for the Fed to write home about, certainly not the 2 percent that they're targeting, still 0.

8 or so away from that. And, but they were slightly lower than the market anticipated. So slightly good news. Retail sales also missed very slightly and but not enough to really say that this economy is moderating to a great degree. Certainly it's not accelerating, but it's not moderating enough probably for the Fed to have any kind of confidence.

That they can cut in June and therefore, the odds of a June meeting cut by the Fed are almost at zero. We're talking now September at best. So let's see what they say, but really for the remainder of the month the story remains the same, just not enough for the Fed to cut. Is that a fair summary in your view, Andy?

Andy: Yeah, I think that, the numbers as they came out, you had to look at revisions. You had to, the one thing that was pretty clear was that retail sales was weak. And I think the market reaction immediately on the retail sales was for the very short term part of the bond market to rally quite a bit taking out at peak, took out about 50 basis points of cuts additionally Since the FOMC meeting two weeks ago, which itself was dovish and so that was the the most radical reaction since then it's back to unchanged relative to those You know since before the data happened the bond market rallied and came back and equities held making new highs And when I look at again the key thing for us to do is frame what we see in the economy.

What is happening in the economy before we can predict what's going to happen in the economy. And what is happening is GDP is now estimated at. 3. 8 percent after the most recent data for Q2, which is really hot. It'll, it won't show up there. It'll come in a little bit from there, probably, it's really hot and retail sales took it from 4.

2, in fact, down to 3. 8. So the real economy is still doing fine. And the jobless claims numbers were, the back to back have been a little weak. There's some weird seasonality going on there, but certainly nothing to write home about that suggests the economy's about to turn over. And inflation is sticky, but, and seasonally likely to say, stay toward the lower end of the range.

But when you look over the last, I call it, Year you've had enough prints, enough CPI prints, enough PCE prints to say that, it's going to be pretty unlikely for them to achieve their 2. 6 percent interest. Sorry, 2. 6 percent inflation target by year end. Just the way the math works. So since the

data has come out, there has and since the FOMC meeting, there's been this debate on how June has been come off the table. But at the same time, Powell was quite clear to say that hikes are pretty much off the table. I think he was explicit in that view. And, that means that we're stuck in a range before until data takes us one way or the other and the way I look at it, it's more likely that they do nothing with the inertia of just letting the data come, which means not cut right?

Because doing nothing means not cutting that it is that they cut radically, even to the three cuts that they have. Mentioned in the SCP now, so I think we're going to continue to get this sort of what's the rush overtone going through the market, but with bonds now yielding 4. 5 percent mortgages are going to drop below 7, dropped below 7 percent this month the economy is just going to continue to run warm.

Yeah. And so that would favor equities over bonds and certainly, in my way of thinking, favor cash over both, but certainly equities over bonds.

Nick: Yes, and that seems to be the way the market trades. So equities do nothing, trade in a range, and then as soon as bonds pick up a little bit, They rally with them and of course rally more than they do and then bonds come back As they have thursday and friday, right?

And what do equities do nothing? They just consolidate at that higher level that they reached while bonds were rallying And that is how the market is trading this bond, this equities over bonds, it rallies equities rally with the bonds. And then when bonds come back to unchanged from where they were before equities do nothing and get ready for the next leg up.

So it seems to me that seems. To be the the overriding theme equities over bonds for the time being until the data really starts rolling over and that we're not seeing yet and we are unlikely to see in the short term, what about next week? What do you, what are we what are we in for next week?

Andy: Well, Waller, who's one of the more noteworthy speakers is. Speaking again on Tuesday, this, he spoke today, but it was on topics unrelated to monetary policy. I'm told Powell is speaking as well on Sunday. Yes,

Nick: on Sunday.

Andy: So that's now Powell has been pretty much the same. The FOMC, he spoke this week as well after the PPI number came out in a in a European tour that he's, was taking he's going to say the same thing, which is keep doing what we're doing, watch the data and, if the data does what we think it is, we'll cut, we'll begin to accommodate and keep rate hikes off the table for now, because the data doesn't push him to do anything other than that.

And so I don't expect much from Powell, but you never know. So we'll listen. And see what he has to say

Nick: And then otherwise the the calendar is very light unemployment claims home sales some pmis But nothing really that the fed is going to take huge amount of notice Ahead of PC later on in the in the month.

And of course, going into the the FOMC, nothing that's really going to change their mind one way or the other in terms of insurance.

Andy: The last big earnings report is this week coming up this week with NVIDIA. And that's. Certainly a benchmark stock and has the potential of causing a, generating a couple of hundred billion dollars of new wealth or destroy a couple hundred billion dollars of wealth in one stock in one minute.

So we'll pay attention to that. But that's the only besides that we just have some auctions. Smaller size auctions, the tips and the 20, 10 year tips and 20 years, so really not much in terms of next week. And then we go into the late long Labor Day Memorial Day weekend in the States.

Nick: Yeah, so it's going to be relatively quiet.

I doubt bonds are going to do very much of anything. The only thing that stops are going to respond to, as you said, is Nvidia. And then we will know because if Nvidia earnings are stellar again. You'll get another leg up in equities. And it'll be a confirmed break higher and then probably just drifts higher on momentum for the next two or three days.

And we have another record close next week.

Andy: Sounds about right.

Nick: Failed break, right? If NVIDIA is bad and then maybe things start getting interesting and we can pick up some stocks at interesting levels. But it seems that volatility is so low that while you can get it two, 3%. Down in the stock market and at any stage and for any reason for us to get more than that We need bonds to really start breaking out of the range that they've been in for you know a couple of months now and Really start challenging 470 480 at the long end and that really at the moment is really not on the cards Not with the data that we've been having

Andy: Yep, not with our data.

Nick: Yeah, so really our portfolio is Stuck where it is. We are happy with it. Aren't we andy?

Andy: Yeah, there's no value in long term bonds. We think they have just, you can get everything you need in two years, three years, four year type bonds. You don't need to be in floating rate anymore because these bonds are now offering a reasonable yield relative to short term bills.

So, we're, we've moved a little bit out and we'd be looking to. Continue to do that process, but there's just no value in long term bonds. So we don't have many. And our equity exposure has these calls and XLK and is medium size. And I think that's a good place to be.

Nick: Yes, absolutely. So we've got a bit of exposure to the Nvidia and ensure they be good.

And if they're not good, we're comfortable with that as well. We'll be able to pick up stocks, A little bit cheaper and that's about it. I will go through that in my little segment looking at the portfolio And what we are looking to do But as you said, I think that if the two year treasury note ever gets back to five to 505 It's a wonderful place to add To something like SQL D or anything that's yielding you over 5 percent because, as you said, the likelihood of pal hiking rates from now on is extremely low because he's explicitly taking them off the table for the time being and we'd have to have some incredibly.

Hawkish inflation data for him to change his mind and that's not going to happen anytime soon. Absolutely. So, i'll go through the portfolio and what we would like to do Have a wonderful weekend everyone. Bye. Bye everyone Right, let's have a look at the portfolio. And as we wrote to you over the course of the week, what have we done?

We sold all the equities, and we bought two of the shares. 520 SPY calls all the way to the 20th of September. So whatever I've done here is since they are in the money, I've added them as a position so that you can see what percentage allocation to equities we would have once exercised. If they were to fall below the strike price, I would take that down to zero.

This is just an indication for you. And what I've done in the cash, I've subtracted how much it would cost us. They, to to To buy these 200 lots. So this is just purely indicative for your interest to see what the percentage allocations to each asset class would be after. Exercise of those options.

Those are not our actual positions. Our actual positions are stated in the broker statement and you can just download it anytime you like. The performance is also updated and that's where we are. Now, order entry, as we've said, nothing that we want to do as a limit order. But if and when two year treasuries go to 5%, or maybe just slightly higher, we want to go out of USFR, sell everything we have in USFR left at that stage, and buy either more SLQD or SHI, or for those who want to be aggressive.

Because we think the odds of the Two Year area staying above 5 percent now that J Powell has basically taken hikes off the table is very low. And we would prefer that. I should not mind being leveraged long of the two year sector, but only have the two year sector, not longer duration. if we back up to 5%.

Everything else is updated, including the weekly performance charts, and I'd just like to take a second to explain why we think this is important. It gives you the maximum drawdown by week, and as you can see it's a Approximately 1. 17, 1. 2%. That gives you an idea of, what you are likely to suffer is with the worst drawdown.

I mean by no means this is the worst possible, but it gives you an indication that if you are more risk tolerant than we are, and you would like to leverage the account, it gives you an idea of the maximum drawdown you're likely to have, at times two leverage, times three leverage, whatever your risk tolerance is.

So we think these, this, set of data here is very important and you should analyze it. I think that's about it. I can go through the individual allocations. Why XLK? Well, we think there is still a reasonable chance that technology leads again. We will see what the Nvidia earnings are, and if they are stellar, I think the odds are that technology leads again, despite the bond market not doing very much.

We shall see. I think this is. Has significant optionality for us. If NVIDIA earnings are very bad and the market reacts very badly, we shall probably sell it out and go back to just the calls. And if the whole market falls apart for whatever reason, we'll have zero equities. So we have huge optionality there.

We. We would like to maintain this 5 percent in TLT for the time being simply because we're so light on duration and it becomes a very unbalanced book. It becomes more of a trading book rather than an investment book. But what we will probably do in the weeks ahead and we are thinking about it is actually Upping our gold allocation from TLT because gold is just a stellar performer, performer at the moment.

And we think that is likely to continue. And I know this is not what we said several months ago. when we lowered the allocation, but we think that we're probably wrong and that gold has another leg higher. We are trying to formulate our opinion at the moment and trying to decide whether that is a good risk reward, but we'll have more to say about that in future episodes.

Otherwise, I think, it's just important that you read the notes so you understand what is going on here. And that's about it. Thank you very much indeed. Have a lovely weekend.