Nick: Good morning. Today is june the first how time flies a new month Let's have a look at what happened last week because it was a very volatile week Although things ended up pretty much unchanged core pce as expected right andy I don't think the fed can really get any more confidence and it is confidence that they want That inflation is coming down to their target.

It's still way above and stationary. It's neither accelerating nor Going towards target. So I guess that is bad GDP is slowly being revised lower We've had the atlanta fed revised down to 2. 7 from 3. 5 And we also had the q1 gdp revised lower which doesn't really matter because that's you know quarter one But this quarter two thing has got certain people a little bit You I wouldn't say worried, but enthused that the economy is finally slowing to to meet what the Fed would like it to do.

And what else did we have? We had the auctions, which really didn't go particularly well, did they, Andy? They were just C's and D's at best. And as a result, what did we have? The the two year note actually closed down six, seven basis points on the week. The long end closed up seven basis points of the week.

And that to me is the way things will continue to. Develop because I just can't see any reason to buy duration here and duration will continue to be for sale simply because it's not, not cheap enough for people to go all in on duration. So I, our macro view really doesn't change from the data that we've seen this week.

Does it Andy?

Andy: No, not really. I have a similar view to Nick on those things that we saw last week. Auctions didn't go so well. We got a little bounce in the bond market, mostly because of that steepening impact of short term rates falling in the toward the end of the week. But, short term rates are, I don't know, 125 basis points of cuts priced in for the next 13 meetings, which, if the economy is weak, you're certainly going to realize, if the economy is strong, You may not get any cuts at all.

So, it's fairly priced. It's okay. The short end. We're going to have to see how the economy plays out. And I guess what I would say is I'm not much of a conspiracy theorist. And I think what the basic takeaway related to the Fed is is what's the rush in terms of making any moves at all?

They have this inertia, why move? But at the same time it's clear that Powell at least. And he's been resting a lot on Williams, who is very dovish, and has been very dovish, but has been evolving over the next couple, last couple of weeks months, and notably evolved even further to more neutral in a speech this week.

Powell seems to want a cut. He just seems to want to cut. And for whatever reason that is, it's going to be, I think, a big surprise to markets in the event that he doesn't want to cut, doesn't sound like he wants to cut, but he's been wanting to cut for since December, maybe even since November.

So I don't see that changing in a major way. And the data gave him enough wiggle room that he can say, yeah, I got some more confidence and that he's focused on some detail level things on the PCE excluding certain things that are stickier. He, and this is what I would call goal post changing in that.

Whenever anyone looks at data, they can always find data to validate their desired move and the Fed is no different and Powell wants to cut and he can find a way to cut, but not in, certainly not in June and probably not in July. And probably like, as I said, probably not at all, he's not, he's hasn't pivoted.

He's very much in the, I would really like to cut. And so the way I saw the market moves, the why I mentioned this is because of the way I saw market moves is that The two year responded to that idea, which is there's enough here to say that the 150 basis points, 160 basis points of cuts that the fed is scribbled in through 2025.

Could be realized. And so to your notes, yields were sold off, but prices rallied. And so I think that's mostly what was happening on the yield curve. It's some idea that the Fed still wants to cut and we'll find a way if necessary. That said, the big takeaway is what's the rush as almost all members are now questioning long term terminal rate.

And whether the econ, which essentially means whether the economy can grow, have real growth with inflation back at target and yet survive higher rates, higher terminal rates. And so that's really the big thing that's happening in markets. Sure, they may cut, but they're not going to cut a lot. And so I think that's what I took away from the news of last week.

And again, it is, there's just no bull case for duration

Nick: in that environment. No, I absolutely agree with you. And I think that is going to be stressed and accented by the ECB, which we have next week. The ECB have telegraphed a cut. The markets would be very surprised if they don't cut because they have cemented the cut.

And yet two year notes, five year notes, 10 year notes, they're all at the lows. Of the year and really as low as they were back in october of last year before the big rally in all fixed income So what does that tell us that tells us that the market is beginning to question what the ultimate? terminal rate Of this cutting cycle is going to be They are constantly Re evaluating it and moving it higher We thought that this cutting cycle would go all the way down to the high twos or low threes.

And now we are beginning to price in that it's only going to go to the very high threes, low fours. And that actually tells us that duration per se, Is just not cheap because if you have fed funds at say four percent at the end of a cutting cycle And inflation is at two but r star is two percent So short rates are at 4%.

Why would you buy 10 year notes at four and a half? What margin of safety do you have in buying long duration right here in a negative yield curve environment and with a huge amount of issuance? coming each and every other week. So that is why duration really is not bid and why the yield curve in our view eventually has to steepen with consequences for other asset values.

But let's have a look at what other data we have next week apart from the ECB, which is going to be an important one. We have jolts and. Andy, what do you think? Do you think Chairman Powell is going to concentrate on that?

Andy: Yeah, once again the job loss disinflationary miracle. The job loss less, meaning no job losses, but you get disinflation, is built around the premise that what you need to see for wage inflation to slow, which is, will reduce demand and reduce inflation, is that the job market, nobody loses their job, but the ability to go to the next job Is reduces and so that you're not able to find that next job.

So you're not able to Raise your salary or negotiate a salary raise because of the competitive pressures with your employer. And so the data that determines that is current data, which is attractive relative to the very backward looking nonfarm payrolls data, and that's all captured in jolts.

And jolts will tell you. How the quits rate is going and how the avail jobs availability is going and pal has referenced. That is an important piece of data and markets have moved on that. And so that'll be a focus. And once again, in a gold post setting way, which, to the extent that jobs become harder to get less less available jobs.

Powell may gain confidence that inflation is going in the right direction. And that confidence will manifest in a rally in two year bonds.

Nick: Yeah, so we have that. And then we have the PMIs as well, which Powell again referenced in a speech a while back. So we have the two data points that he's looking at.

But I don't think they're going to show enough weakness for him to move in June. The question then becomes, and we'll probably address that next week, is what are the dot plots going to show? Is it one cut, two cuts, no cuts? The we, we are opening up a whole load of different pathways for asset prices as a result of what the dot plots show, but we'll address that next week.

And finally, as you mentioned, we have NFP on on Friday, and that, as you said, is backward looking. I think JOLTS is probably going to be more important than NFP because NFP is a compilation of the weekly unemployment data, and we've had that, so it's very unlikely to move the needle either way. It would have to be a statistical shock for us to be Terribly impressed by non farm payrolls,

Andy: right?

And it's also a late the date that it comes out is as late as it possibly can basically and it bounced and it backs right up to the following week so on friday, you're going to get the nfp and then the following tuesday wednesday and thursday you're going to get twos, sorry threes tens and thirties auctioned cpi ppi and the fomc You So, by, but, people are going to be positioned ahead of the following week when the NFP drops, not particularly focused on that, but the early part of the week is going to see some interesting things.

We saw I'm sure everyone's talking about this and that, It sees things that pays attention to markets closely, a very big rally in stocks right at the end of the day in the last 20 to 30 minutes. And that's part, that is have a lot to do with month end flows, possibly some other technicals.

And then Monday, you're going to get some inflows that are, fairly reliable from 401k investors making their monthly contribution. And so you're going to see some interesting volatility in the first Couple of days and then we'll have the numbers. For us, we just look at our portfolio and you start with duration, can't own it.

You look at our cash balances, fine commodities and gold fine relative to, a benchmark. And then we're off to, equities and our equity exposure remains levered to the upside in that we have call options that have very low risk to the downside, meaning all we can lose is what we paid that represents 35 percent of our equities and we've been dipping dip buying and continue to dip by in some more equities XLK in the last couple of last week.

And I think we're in good shape right now with those positions.

Nick: Yeah I certainly see or have no desire to add to duration at the moment. The short end is going to depend entirely on the data and we might have to jump onto that. And get out of the USFR, the floating rate note and go into more duration towards the twos and threes, but that depends entirely on data and we will know when the data comes out, whether we wish to do it or not, and we will certainly send you an email.

But. I think we are, as you say, very well positioned with no desire to do anything in a hurry and certainly not next week before we see what the Fed decides and how they package it and how they structure the dot plots. Which should have quite a bit of importance going into the summer and really when you look at what happened this week You know the net the the bond market moved very little the short end down the long end up in yield And equities really closed very close to where they opened I mean they were still down but not very much because of this very late rally that you mentioned So things are pretty much unchanged and that tells me that people are undecided here and waiting for some big news from the fed to then shift real money allocations And we'll do it with them once we've seen what the fed decides and what this week's data brings to the table Sounds good.

Thank you very much indeed Bye. Bye. Let's have a quick look at the portfolio. As mentioned, we added another 5 percent to XLK down at 210 when he got there on Thursday evening and then watched it plummet on Friday morning until they actually came back and closed higher. So, we should have put in the bid at 208, which was, I was debating whether 208 or 210, but never mind, it is what it is.

And if we get exercised in in September, we will be at 45 percent or we'll be at 10 percent or even slightly lower. So, we're really, as we mentioned, in no rush to do anything at all. Order entry for this week. It's still all about the very short end. And as we mentioned, we won't really know whether we want to do it until we see the data and we start anticipating where the Fed's dot plots are going to be the week after.

In any case, if we decide to move out of USFR and into the USFR, SLQD or SHI and TUA is only for the people who want to be aggressive. We will be using SLQD or SHI. And we will basically be closing out the USFR and going into SHI or something like that. So we will send you an email in any case before we do it.

And really it all depends on the data that we see the next couple of weeks. Thank you very much indeed.