

Nick: Hello, good morning. Today is the 22nd of June, time flies, and another episode of Two Grey Beards. Very little really happened last week, Andy. What what stuck in your mind as the highlights?

Andy: Well, you know, it was expiration. Actually, I gotta tell you, having Wednesday off, that's a highlight. They should bring that back all the time. It created you know, a couple of sort of low volume, weird days. The data was until Friday's PMI numbers continued the trend of sort of softish data that has really had no market impact on the front end of the curve, but kept a bid in long term bonds and oddly kept a bid in equities as The slowdown, whatever it might be, is not going to be enough to hurt earnings, or at least that's the perception.

And then there was a lot of expiration related stuff. And I guess the, you know, the biggest news was that NVIDIA fell 10 percent from its highs. Who cares? I think it is now back down to where it was last week before last. So I didn't take much from the markets this week, last week, to be honest.

Nick: Yeah, no, we, we had a cut from the SMB from the Swiss national bank, but their inflation situation is completely different to the U S one. So I don't think that that is meaningful in the slightest. Everything that basically happened last week shows an economy, which is slightly moderating from above trend growth towards trend growth, but certainly isn't weak or anywhere near weak enough to elicit any kind of immediate Fed response.

I think the Fed is weak. Is quite happy with the data that's coming in, it gives them plenty of breathing room and no need to do anything, neither on the threatening of rate hikes, which we will know, we know that we're not going to get, but neither do they have to even think about bringing forward the rate hike.

Cuts. So the July meeting expectations stay around the 10, 15 percent odds of it happening. I think the odds are probably zero unless we get a really bad acceleration of unemployment, which we are unlikely to get, we all think. So really it's, It's not strategy that we have to worry about now. It's more or less tactics because the strategy is the one that we think we got right, i. e. we prefer equities to bonds, we prefer to be in a In options as opposed to outright because the volatility is so low and we have so little risk and we can even leverage, but really for next week, what we have is the tactics of what the French election results of the first round are going to be like, and that could provide us with an opportunity to buy some cheap European shares.

We don't know. We will see what the results are. My own feelings about it are that the market has probably discounted correctly the dangers of the

cohabitation in France and the dangers of anything really bad happening from the from that election as reflected into the fiscal arena of the of the European Union and any kind of danger of a breakup of the euro.

As a result, I think those odds are very small. As of now, there is no reason to believe that even a majority government led by Le Pen is going to be as extreme as some might fear. And that the cohabitation won't work. France has had cohabitation many times in its history, and it's a big country, a responsible country.

So I think the odds of it not continuing to be responsible are. Not that great in which case if the market panics, we probably will have an opportunity to buy some cheaper European shares, but we will see we will send you an email if we see anything that is out of line and out of our thinking.

Otherwise, apart from that, what do we have? We have a continuation of bond issuance, twos, fives, and sevens from Tuesday till Thursday. It's basically a continuation of the drip, drip, drip, which is keeping the markets in this range, right, Andy? I mean, we, I just can't see anything that's going to get us out of this bond range in the short term that would elicit a big response from equities one way or another.

What do you think?

Andy: Yeah. I mean, Nick talked about tactics, which I agree on. I think we're well positioned and I think we we'll take advantage of any short term volatility next week, which we don't expect. I think stepping back, it's just. The reason why we're in a range is the reason why that we are positioned the way we are, which is the economy is not so weak that bonds are a buy, and it's not so strong.

That not strong enough to support equities. And so why are we long calls? Because they have less downside. So as long as the economy is where it is, equities have limited upside because they are expecting so strong, such a strong economy and bonds have limited upside because they're expecting so weak in economy.

And so that's where we're at. We're in a position where assets aren't necessarily going to return much until one of those two things comes out to be true, which is, you know, The economy weakens a lot, or the economy for some reason re accelerates. And depending on which that is, and hopefully we'll be able to track that for you, that's our goal that will determine future asset allocation, but for now, volatility is very low.

Own calls instead of stocks, but own stocks and bonds are unownable.

Nick: Yeah, the longer duration is really expensive term premium are below zero. Once again, why, why rush to buy them? It just makes not a lot of sense, you know, staying in the shortish end to the belly, IE twos to fives seems to be the sweet spot.

Covers both eventualities. So I think we are well positioned and we don't really have to do anything at the moment. Core PC comes out on Friday, but that is so well telegraphed and we all know what the number is that it would need to be a very big surprise. For us to, or for the market to think that something has changed.

So really remaining in a range is the favorite at the moment. And really you can overwrite anything just like we overwrote the 555 calls that expire next week. If you have a large portfolio, Overwriting with calls, unless you are long calls at the moment, as we are, is the right thing to do. The, the volatility of next week, or the likelihood that we will end next week very far away from where we started.

This week or ended this week is, is very, very low. There's just no impulse that is going to create a macro reaction unless it's France. And if it is, we will send you an email. If not, it's going to be a very, very quiet week.

Andy: Yeah, I want to just rephrase one thing. Nick said sell calls. I said, buy calls.

We're talking about different. Yes, different. When I say buy calls and the way we're positioned is long calls were long September calls. And what's Nick Nick's talking about, which I think is totally right is anytime there's a premium and short term calls at this stage. You can sell against them because we're not going anywhere

Nick: Yes, just to make absolutely sure that i'm clear i'm talking about owning long term calls And overwriting them with short term calls ie calendar calls like like we're doing absolutely That's about it.

I think there's no need to Elaborate because things are so quiet and we really can't see any changes that Are going to emanate from next week's data But if something does pop up naturally, we will send you an email. Otherwise have a very nice week onto the portfolio As you can see no big changes in valuations

or anything We are going to remain with what we have because we see absolutely no reason to change it.

We are comfortable with it. Our stock allocation will be around 46 percent in case we get exercised, but we have the downside protection and if the market for whatever reasons comes off a lot, we have the ability to buy it. So these 555 calls I think are likely to expire worthless. They're already worthless.

They're only worth 36, but we're just going to keep them for now. There's absolutely no reason to cover them. The odds of the market going up to 555 are incredibly light. What we will probably do is send you an email close to next Friday. to basically roll them for another one or two weeks. Otherwise, as we said, the only thing that could get us interested is some kind of a freak result from the French election, from the first round, where we get an opportunity to buy some cheap European shares.

We think the odds of that are extremely low and that is why under order entry I've said email only no limit orders for now. The broker statements are updated as usual as is the monthly performance as is the weekly return performance. Again, We think that the odds of the markets moving are very, very low.

And therefore, if you have a very large portfolio and you think that overwriting any of these positions is worth it in one week calls out of the money, please do so with this size of small portfolio, you know, making a hundred bucks extra is just not worth the risk. But when we have the. 1 million portfolio will be able to do much more of that kind of thing.

Anyway, that's it from me for this week. Have a wonderful weekend and I will speak to you next week.