Nick: Good morning. Today is the 20th of July. Time's flying and very interesting reactions from the market last week, right, Andy? Very little data. What do we have? Retail sales, that was probably a slight beat compared to expectations and whisper numbers. Weekly claims, maybe a little bit weaker, but nothing to write home about.

No indication of any economic contraction that we can see from the data. The ECB also did nothing, which was completely as expected and was, reiterated that they are completely data dependent. The market did not react. Certainly the bond market, well, it was fully expected and nothing really from Powell, he had a chance at a speech to say something, but he didn't.

And now the fed is in blackout. So fortunately for the next two weeks, we don't have to listen to their opinions We shall find out what they really think on the 31st of july when they won't cut rates, right? Andy, I just see absolutely no indication Unless data in the next couple of weeks is extraordinarily weak why they would cut rates What do you think when what do you think of the market reaction?

Which was unexpected for most

Andy: Yeah, for sure. I think that, the, so let's step back and say that as we mentioned in the, well, actually the big news of the week happened after our last meeting, which was the assassination attempt on the president, which sorry, the well, the president, on Trump.

And that may, it's hard to say. It's certainly. led to a sentiment change that said that the likely that increased the odds that Trump would be the president. And maybe that was enough. To get things unglued a little bit in the equity market. And so there was a early on the first few days, Monday and Tuesday, there was an equity market rally because Trump was perceived as good for equities.

And bonds steepened because Trump was perceived as bad for inflation. But the front end really did nothing because he said, Soon after he said Powell would be able to complete his job. And so that sort of kicked off, some Trump trades, so to speak. And one of those was for people to sell tech because he's perceived as being anti tech and there was comments on Taiwan and buy back what they were short.

And so. Over the course of this week, Russell stocks rallied 10% making, new highs. They had been down for the year and now they're up. And that was a big deal. And at the same time, NASDAQ fell and then the S and P joined the party toward the end of the week. And so equity markets sold off and the bond market, sold off a little bit. And by the end of the week, it looked like everything was for sale in what we like to call a de leveraging where people owning anything, sell what they can to raise cash.

Nick: Absolutely. I think you hit the nail on the head. I think the initiator of everything was the hedge funds finding themselves on the wrong side of the small cap versus the mega cap trade.

They have been long of mega caps and short of small caps for a long time, very profitably. They scrambled to take that trade off, taking the value stocks much higher. And with value stocks, it's hard to find sellers unless you take them quite a bit higher, because by definition, if you're a value investor, you are very passive.

You hold your value stops wherever the price is almost so it takes a much larger swing To get some people to sell their value stocks and the hedge funds got blown up on that trade And as they covered their small caps, they started selling the mega caps and then the big caps and Then finally everything joined in I think we're playing this absolutely correctly we've anticipated that the stock market was going up at a, at an unprecedented and unsustainable rate.

We've cut our equity allocation and exposure. All we have is some options really, and we are in an excellent position. To buy back should the market for much more, but the real question is on no data or no fundamental data this week, and certainly very little fundamental data coming out next week, how far down can the equity market go?

And would the Fed care if it did? What do you think?

Andy: Well, in terms of between now and July I guess there's no data that would provide us with any guidance of how the economy had cratered. Between now and the end of July, we know what the PCE data is going to be like the GDP, which is the only relevant data for besides the PCE for the for the Fed is going to be around 2.

7%. And so I can't think of the data. That would cause any of the Fed to cut under any under literally any circumstances that they're going to get. So it would have to be a exogenous, a terrible exogenous event or. A stock market crash, that threatened financial stability for the Fed to cut given their guidance.

They've told us they're not cutting essentially. So yeah, there's no stock market level that I would think the Fed's going to cut in July. No, in September, still the odds on favorite to, for a cut. And if the economy continues to go on the path that's been going on, I would expect them to cut in September and possibly one more time for the year, but that's already priced.

Nick: And I think that really what they're looking at now more than inflation, because let's face it, inflation is very unlikely to accelerate or do anything much since commodity prices are very much in a very tight range. Unless oil is spiking, unless commodities are spiking, the odds of inflation re accelerating from these levels are fairly low.

And therefore you have to look at unemployment to give you your clue as to how the economy is doing. Excuse me. While weekly claims are very much in a narrow range, It's unlikely that the economy is cratering like some people seem to be thinking and therefore the odds say that the Fed will not care.

And let's not forget that should the economy crater, a lot of people think if they don't cut in July, they can't cut in until September. Well, that's not really correct. They can cut at any time. It would have to be something Fairly extraordinary for them to Convoke an extraordinary FOMC, even a telephone one and cut.

But the possibility is always there. I'm not saying they will. I'm just saying it can always be done. So I just don't see what the urgency would be for them to cut in July. I think it's very low odds that they do that. I think they leave it till September and next week, if anything, the market probably shows some signs of stability.

Andy: Yeah. Again, you, I think you're hit out. It, you raised an interesting point in there, which is the focus on the fed has been and should have been inflation falling. And they've got it to a point where I agree with you that there's very little chance that it, Reaccelerates and I think we've been consistently saying that what and at the same time I think it's very unlikely without a weakness weakening jobs climate You know, weakening jobs, climate, not just a slowing a week, a real weakening jobs climate for inflation to reach their target by, any time in the near future.

And so what that tells me is we're going to bop around here between 2. in terms of weekly print, monthly prints annualized monthly prints, and they're going to still have to stay modestly tight in the front rates. And the markets. basically aligned with that idea. And so I agree. I think the interesting part is how how quickly, if at all, jobs become the issue for the economy, kicking their balance to more rapid cutting than is priced.

And I see no signs of that yet.

Nick: Absolutely. So, next week, what do we have? We have some options, twos, fives, and sevens. More of the same, the front end won't be able to rally, absolutely no reason to buy anything there. Equities, well, they'll go sideways a little bit, maybe a little bit more weakness if the Beginning of the week, we have a follow through from the people who have to raise some cash and deleverage, as you mentioned, but the data is very unlikely to have any kind of important enough signal for us to be changing our portfolio at this very moment.

Yeah,

Andy: exactly. Nothing changes with our long term view on long term interest rates being just not of any value whatsoever. Short term interest rates, we're not levered, so we're not making a big bet on the Fed either way. We're just extending some of our cash and doing it in Both nominal and tips related cash, like bonds, should we, because the government's selling 183 billion twos, fives, and sevens next week, should we adjust our twos, fives, and, basically that's where we own stuff it's, we're not levered, they're not going to go anywhere, they're just not going to rally.

So, that, that portfolio is fine. And, our equity portfolio, what'd you say? We have. I think we you shared that we have like 2, 000 of S and P premium. That's right. After selling last week. We just don't have, we have upside exposure and equities, but we just don't have much downside exposure and equities and our golden commodities.

If there's a big D leveraging, are we going to take some hits on our golden commodities potentially? It's a 10, the total of that is a 10 percent positioning. So, we're defensive. With some equity exposure and no bonds and that's where we should be.

Nick: Yeah, no, we're It makes fundamental sense knowing or condensing or distilling all the data that we've had Over the course of the past couple of months to be in the position that we're in And really no changes are necessary should the markets fall much further Yes, I think we should do some shopping, but that is something for an email if and when rather than anything that we have to decide right now.

Andy: Yeah, for me, there's, I the deleveraging of equities could and all assets could Extended to next week, and frankly, I don't see anything in the or Q. R. A. which will talk extensively about the following the next episode next Saturday. I don't see anything that would say that the. central bank or the treasury is going to act to stem the losses from of a 3 percent drawdown in from the all time highs in equities.

I don't think they're going to do an act in any way that's going to save equities. So there could be a little bit more deleveraging before this is all said and done, but we'll see. Again, not much data. So it's really just going to be how people are positioned going into the following week.

Nick: Absolutely. I'll do my portfolio analysis, but have a wonderful weekend, everyone. See you later. So let's have a look at the portfolio. We lost a little bit of money, but we sold equities at the beginning of the week. We sold one of the calls that we had to the 20th of September. And that helped us.

Considerably. So now that would be our position if we were to be exercised near the minimum of equities that we would hold if we were defensive. If we were outright defensive, may I remind you, we would be holding 20%. So we have Plenty of room to add again. We didn't do anything at all in bonds and we didn't do anything at all in commodities.

So we are very conservatively positioned and we can afford to do some shopping should the market fall off. Further, I've, in the order entry, I've put email only simply because it's unlikely that the market will fall next week to levels that we are interested in buying, but should it do so, and I have some levels in mind.

I will definitely send you a very quick email saying we are buying some call options or we're buying SPY. In the broker statement, what I've done this time is I have, by popular request, made this a weekly Statement so you can see everything that happened last week So it's now from the beginning of the week to the end of the week And that is just about it.

Have a very nice Week next week and should anything interesting happen, we will send you an email But the only thing that we're really interested in doing Is buying should the market get stupid to the downside in equities. Thank you very much