Nick: Good morning. Today is August the 17th and we had a very interesting week last week, didn't we, Andy? People regressed or anyway, the market regressed for them. So what do you think is going on at the moment? I, the way I see it, we called it roughly right last week. Everybody was On recession watch looking for weak figures to confirm their bias towards recession.

And we didn't get them. We got some perfectly normal figures in line, maybe slightly stronger than expected in terms of. The performance of the real economy and the market is back to where it was before it collapsed a couple of weeks ago. Any ideas what you think is really going on here?

Andy: Yeah, sure. I think you look at the 2 weeks in since the NFP, prior to that, we were seeing a meaningful deleveraging that, yeah. From the, the July highs where strong yen, weak data conspired to have this sort of NFP, which was weak, very weak and over the weekend panic and that over the weekend panic resulted in a A recovery from that panic. And the rest of the week was the recovery.

And then this week was more about back to normal issues being discussed in markets sensible Reactions to data. Nick mentioned the data was a little better than expectations. CPI and PPI were, in line with the feds desired trajectory. Not so weak that. A cut is a guaranteed, but weak and sorry, in line with their trajectory.

And then the real economy data was okay. And the thing I felt most noticeable. Is not all the sort of high flying stuff that's going on, but, down in the weeds of what's happening with expectations of fed cuts. We've gone from over the last 10 days, a 50 basis points. Of emergency intermeeting cuts with over to over over 175 basis points of cuts priced in for 2024 to a market that now price is 100 basis points of cuts in 2024 and.

That's a big return to more normal pricing. And so equities have returned to more normal pricing. Positioning has largely, the fast moving trading accounts probably de levered and then re levered. But the. Large institutional flows of money probably delivered a little bit and relevered a little bit.

And so here we are going into a data free week, couple of auctions and the end of the week the potential news out of Japan and. Certain news out, well, certain statement from Powell at Jackson Hall. And so here we are and we're normal. And so, that is how we think about markets right now.

We're back to the type of world in which the Fed is data dependent in a world where the data is going in their favor to achieve their goals. And that's where we are.

Nick: Yeah, no, it's very noticeable that the markets have calmed down. Volatility is right back to where it started from. And this little panic episode has passed and really is not material anymore.

What I found interesting is that the Atlanta fed GDP measure is now at 2%. Which is perfectly in line with the street consensus. And as you said, the expectations for Fed cuts have normalized. Back to where the dot plots are, ie basically six or maybe seven cuts in total over the course of 2024 and 2025, which is consistent with what we've been saying an economy, which is moderating in terms of growth, but not going into recession.

And that is good for real assets as a whole because the fed now maintains an easy policy Or easier than it has been and we go from a restrictive monetary policy to a neutral monetary policy That in general is good for risk assets in general. It tends to be bad for the dollar And what is bad for the dollar is normally good for the periphery markets and the developing markets, things like Asia even Japan Latin America, et cetera.

So it's not bad for them. It's good for them. And therefore those markets tend to maybe outperform a very expensive market like the U S. So really we are. Very happy with what we've done and how we've navigated it. We are at new highs, as you will see, in terms of returns. And really, we are looking for opportunities to add in sectors that we think have an opportunity to outperform the U. S. Because the U. S. equity market, by any measure you look at, is very rich and it's already discounting. All that the Fed is likely to do and possibly even more So you're always looking for markets which need to catch up as opposed to a market which is already pricing in Everything that the Fed is likely to do over the course of next year and a half

Andy: Yeah, I think that's key.

You know the the dot plot is going to change in September. We'll have an episode prefacing that in which the Fed, in which the Fed is likely to marginally reduce the rate that they expect in 2025. And, the thing that is important with markets is that the market has already anticipated that and has those cuts that we would expect the dot plot to show, which is around seven.

And for assets to outperform cash, U. S. assets to outperform cash, you have to have further. And we don't expect that in an economy that's doing fine. We expect, and this is the key point, Nick talked about neutral rate versus restrictive. And you can debate whether the Fed is in fact restrictive.

Some members of the committee say. Modestly restrictive. Others, including the chair, say restrictive. A return to normal is what's likely a, what's priced is at this stage, or and certainly was priced in the days prior, is a Shift to accommodative in which you're trying to support the economy instead of having no impact on the economy.

Now, one would ask, why does the economy need supporting? I don't see it. Certainly the asset market doesn't need supporting, so I don't think there's a, I think they are, and we've said they are, and the dot plot says they are, going to normalize. But are they going to create accommodative financial conditions?

I don't think so. And so that tells me that you want to look elsewhere for assets. And the U S market is fairly fully priced. Now, the next few days, the next few weeks, anything could happen. We could see momentum. We should probably talk about our expectations of. What will happen at Jackson Hole?

What do you think, Nick?

Nick: I think there's very little likelihood that anything comes out of Jackson Hole. The highest probability to me is that he says that they are still fully data dependent. They They will look after both mandates, but that inflation is the most important mandate Because it costs them nothing to say that whether they mean it or not You know the bond market's going to like it and therefore they're going to say it I think the end result of jackson hull is going to be A market which sides with relief and says, thank, thankfully they haven't said anything silly.

They haven't done anything silly. It's steady as we go and we can continue enjoying our summer and therefore volatility comes down slightly. And as a Pavlovian response assets do slightly better, but that to me seems to be the highest likelihood I would be very surprised if he comes out and says anything hawkish, because I just don't think there's any need for it at the moment and the political situation being what it is, how close we are to the elections.

It could always be misinterpreted by people willfully misinterpreted. So I really think that he will shy away from anything like that. What do you think?

Andy: Yeah I, so I agree. Certainly on the things that relate to the stir market. Which is the cut in September, he will may use words like likely, because the market's already there and I don't see any, I guess there's a possibility he would say a rapid, it would be so embarrassing to the Fed for them to cut 50 basis points.

Just beyond because the pressers have all been about. Why aren't you cutting? Why aren't you cutting for multiple pressers now? And they're just not their egos. Just not going to allow them to cut 50, but I don't think he'll necessarily take it off the table. If he did, could that be slightly perceived as slightly hawkish?

Maybe, but I agree with Nick. He's not going to want to make a lot of news. On the other hand. There's no upside for him to take even signal that no cut is a possibility. I guess it's possible he could say, hey, we don't know about and we don't know about 20 September, but I don't see any upside to that strategy either.

And so I think it's going to be, hey, we get to, we revise the dot plot that I agree, an extraordinary difference, either validating the possibility of 50 or taking or validating the possibility of zero is unlikely. I guess the other thing I'd say is

one of a couple of things that are brewing regarding the importance of the Fed and where it fits. Is their evolving balance sheet. Potential stress in the reserves market. Potential stress congressional the the Basel III endgame politics and their evolving balance sheet and what it all means.

And the interesting part of the Jackson Hole speech and he usually doesn't hew very closely to the agenda. But the agenda is. Is about the way that the Central banks actions are transmitted into the financial system. And, I've been long saying that it's been the short rate matters very little and the long rate matters a lot.

And so the balance sheet has a bigger impact. Financial conditions have a bigger impact. It's the agenda of the. So I guess I'd be looking to see whether he validates what the the, what the agenda is saying, or just doesn't even comment on the agenda. I'd be interested to hear about that, but that's a second level down versus what he says about the short rates.

And so I'm expecting no news, but I think the market is too, Nick talks about a relief. Relief could come from, he didn't say anything hawkish, relief could come from he did say something dovish and I'm not sure which way the relief will play, but volatility is down to 15. 5 percent on VIX futures equities are back to where they were I think relief is already in the market, but, we'll see what that could

Nick: mean.

And in any case if we see anything of any interest or any importance, rather from the Jackson hole speech, we'll act immediately and send you an email and change our positions accordingly. That's about it

Andy: this week. Sure. Before we leave, you talked about what we're going to do in the portfolio. Um, I've been focusing on Japan for a long time and look at that opportunity as.

An economy that's actually coming improving versus an economy that's slowing. And so I really like the idea of buying Japanese stocks. Unfortunately, you can't do them easily. You can do them easily with an ETF, but if you buy one unhedged ETF, you end up having, Japanese yen exposure. And that's moved, that's strengthened a lot.

So I like the idea. I'm sure you'll cover it in the conversation about buying Japanese stocks on a hedged basis. But, that's been an area of focus for me and an area where I may also advocate for that.

Nick: Yeah, no I like Japanese stocks and I like Latin American stocks. And I like sort of anything in Asia without China and I'll cover that in my segment next.

Andy: Fantastic. Have

Nick: a great weekend. Thank you. Bye bye. Before I go into the portfolio, just a quick word about the website. Everything is prepared for you for, so you can see what Two Great Beards squared and Two Great Beards total is going to be like. Please don't subscribe yet because we will be posting nothing until the 31st.

of August. That is when the Two Great Beards program will start with its first allocations. I just wanted you to be aware that everything is there so you can decide whether you want to switch or not. And of course we have the, also the Total, which basically allows you access to both the original and the squared.

Everything is ready for you, just be aware of it. And we will post next week a very easy way to convert your current original subscription to squared or to total, whichever you wished. It's going to be very easy and powerful. pain free as it were. Let's get on with the portfolio. So here we are with the portfolio.

We are making new highs, 314, 000. If we have a look at the weekly performance charts, we can see that we are nice and steady and we are basically getting this right. So what do we want to do next Well, this is it. We want to add about 10 percent of AUM in these three ETFs. HEWJ, which is Japan in dollars and 3 percent in EEM and 3 percent in EMXC, which is emerging markets without China for a total of about 10 percent of AUM.

How to get there? Well, we need to sell BOXX and the small remainder we have in SHY. Say if we sell BOXX. B O X X. We raised roughly 16, 000. The small remained in in in S H Y is another three. So they call that 19. And to get to about 10%, we need to sell about 11, 000, 12, 000. And we'll do that from STIP.

So we will reduce that STIP amount. So we will be upping our exposure about 10 percent in equities, but not in equities, which are in the U S but in emerging markets, because we just feel that. At this stage of the game, the Fed is more likely to remain accommodative and easy as opposed to not, which should be good for emerging markets, simply because the dollar tends to go down in such periods.

And if that is the case, their debt burden becomes much lower because they're borrowing dollars, companies borrowing dollars. And the whole emerging market space tends to outperform the the U. S. markets or developed markets. So, for better or worse, that is what we've decided to do. And we won't do it first thing on Monday.

We will, see how it goes. We are in no huge rush to do it by Tuesday or Wednesday. We will definitely have done it and we will post the prices that we have done it at. Otherwise, everything else is updated. I don't need to tell you. You can just download the broker statements whenever you like.

The chart pack, I've inserted those these. ETFs into the chart pack. So, you can go and have a look at them. We think it makes sense to up the exposure to risk assets as opposed to decrease it at the moment, simply because we don't think a recession is coming and that it's not. If one does come, it'll be very shallow because the Fed will cut a lot and weaken the dollar, in which case these risk assets that we are buying should really outperform everything.

And we're looking forward to having in a roughly a 35 percent allocation to equities as opposed to 25%. Thank you very much indeed. And of course, if anything happens at Jackson Hole that is not covered by us that we haven't actually covered in this in this broadcast, we will let you know via email immediately and change our allocations as appropriate.

Thank you very much indeed.