Good morning. Today is the 24th, I believe, right, Andy? Yes. And a new episode. What happened last week? Not a lot, really, in terms of recession, watch. Because none of the data that we are getting are confirming that we are going into a recession. It might be confirming that we are slowing down the rate of growth, but certainly not that we are in any danger of imminently falling into any kind of recession scenario.

We had the weekly claims, the home sales. Nothing really that we should be terribly worried about but we had after that on friday We had pal who basically came out with a victory lap over inflation and now he is worried about Unemployment and as we all know they have a Dual mandate and he's now seems to be stressing the second part of the dual mandate, which is unemployment and I quote here.

He is basically saying that the Fed does not seek or welcome further cooling in the labor market. What do you make of that Andy? What can we possibly make of the data that's coming out saying that the economy is not really cooling? Cooling at any rapid pace and what pal is telling us? Well, I mean, I think the high level point you made at the beginning which is he was taking a victory lap.

And Thinks that inflation is no longer going to be that it's going in the right direction, that they have all the confidence that they, that they need to begin cutting rates and the pace of cutting rates will depend on the jobs mandate, which makes sense if you believe inflation is no longer a problem, which it may not be.

And then the question is You know, what does that mean in terms of policy? What it seems clear to me is that he said to the bond market we're going to cut and, you know, it's going to be a pretty high bar for us not to cut. And what that really says to me is, and there's a lot of things that we can do.

Talk about fed puts and things like that. But what it says to me is very clear that at a strike Bonds have no downside now what that strike is probably quite close to where we are Well, i'm not so sure you know that well, it certainly Closer than what we might have thought days, weeks ago. The question is, you know, we have 200 basis points of cuts priced into the next 12 months, which is to me, not what I would expect.

I would think that the put would be, I don't know, call it 150 basis points of cuts in the next year. Like I'm trying to think. If I were Powell and I would say, what, what am I going to do? Absent any information whatsoever, I'm going to cut three times, two to three times, probably three in the next three meetings that I'm going to.

look at the, the impact of that, see how good jobs have gone and cut something like 75 to 150 basis points in 2025 over the course of the next eight meetings and end up at around 3 percent fed funds. And, you know, that's 200, somewhere between three and three and a half percent to fed funds. But what I would say.

Is without a doubt, I'm going to be at three and a half. So when I think about the fed put, I think about fed funds being no higher than three and a half by the end of the next year. And that's, let's call it 175 basis points of cuts. Maybe the strike is 375. I don't know. It's not 3%, which is about where we are today.

So I think it's a put it's just not right at the money. It's just a little out of the money I would agree. I I'm slightly more bearish than you that I think the The terminal rate is going to be somewhere around 375 to 4 percent simply because I can't imagine that inflation Will be at target by the end of 2025 But we will see about that.

It all depends on the job side. Yeah, don't get me wrong. What I said is where I think Powell struck the put. Right. Not where I think the put really is. Right. I'm, I think three and three quarters, four percent is what they need to get to eventually to be normalized cuts. But Powell seemed more concerned.

What it isn't, is that is a put that struck at the money on bonds. Bonds still have downside. They don't have no downside and only upside. Now, Nick and I probably think they have more downside than the Fed may think, but, or the Fed may act on, but we'll have to see. One other comment about what happened last week, which I think is extremely important, particularly given our the, the things we're going to talk about in the rest of the video is on.

Thursday night before the Fed spoke Friday, Friday Japan time. The the chairman of the BOJ, Ueda met in, in the parliament, in the diet and He basically said, listen, we're on a path to raise rates. There was quite a lot of pressure and there, I totally get this. When the Nikkei fell almost 25%, well, maybe 26% he was immediately called on the carpet.

But by the time he arrived at, at the diet on Friday the market had already recovered. And so he was able to continue his, we're going to remove accommodation. We're on a path. We like the way it's going and we saw the yen at the end of the day after the combination of Powell and you ate us speaking at its strongest level.

Absolutely. If we now think about the equity put because we've talked about the bond put. I feel that the equity put is far further out of the money than the bond put. Would you agree with that? I, the way I look at it is that if the bond put is quite close Now, we can argue whether it's 25, 50, 75 basis points or whatever, and that will depend on, on data as it comes out.

The equity put is far further out of the money than the bond put, because really that is going to entirely depend on how the economy evolves and how earnings evolve. So I'm, I'm feeling that the market is beginning to change its mind about the ratio of Let's call it the totality of the bond market against the totality of the stock market.

Somehow I'm getting the feeling that the market is in one of those transition periods where it starts preferring bonds as an asset class to equities. Do you, would you say you're getting the same feeling or am I too early? Absolutely in the same place as you are. And I think it's interesting that if you think about the bond put, why wouldn't you own bonds if that you have a put now, and that is a real put like he's going to cut, he's told you he's going to cut and he's going to do it.

So you're supported by those cuts. Now, is it, are bonds a buy? I prefer cash than one year bonds, but, and we'll talk about the longer term bonds, but they're not a sell. So people who are interested in buying bonds can think about that and say, where's my money safe equities. Your point about equity, the equity put, let's just be clear.

There is a level of the equity market that would, that would then be a contagion to the economy. And we've seen many cases throughout our careers in which the Fed has acted when the when the equity market has fallen adequately. And so it is true that there is a fed put and we saw it in Japan.

They called the guy on the, on the, on the carpet when the market fell 25%. But let me tell you something. You're seeing a lot of people talk about 5, 000 put on the S and P. There's just no way that that the fed will act on a five percent, on a 10 percent drop in the equity market. There's just no way. Now, if it came with, they're going to act.

Based on the economy, which gives a put to bonds, but if the economy is weakening, equity should fall. Absolutely. So I don't see the equity put as being anywhere close to the money. There is one, but there always was one. And we didn't learn anything based on the equity, based on the bond put that was placed on Friday.

Now I would agree. So we, we are on the same page as far as what. Last what happened last week. What are we going to learn next week? That's going to make Interpretation of last week, any clearer? Yeah. I mean, the data is pretty, there's actually quite a bit of data and it used to be an interesting bit of data.

The core PCE has been something we've been talking about and market participants have been all over for a while now. It doesn't matter. The inflation PCE is going to be in line. We all know it from the CPI and PPI in the past. We also get GDP data, which is a revision to the second quarter's GDP, which is a non event.

So the only thing that's at all interesting and probably also a non event, is that there's 183 billion of twos, fives and sevens auctioned on Tuesday, Wednesday and Thursday. And that's really the heart of what's going to happen. And so what we're going to find this week is how positioning is. Are people overshort the bond market?

Are people not long enough the bond market? Because that might see some flows. And then we get NVIDIA earnings, which should have some randomness thrown in. Yeah, now I think the twos fives and sevens will go pretty well. They'll try to cheapen it It won't get very cheap at all Because then we'll really see how much demand there is for bonds.

I think it'll be Good, I think the the the auctions will go Well, i'll certainly be buying them and the big event I think is actually In terms of data, probably durable goods and consumer confidence. Those might tell us something might not. But NVIDIA earnings could really be anything and the market reaction could really be anything at all.

I'm getting slightly worried about that. And I just don't know what to expect from NVIDIA or from the market. The one thing that I've noticed is that the the NASDAQ has been a lot weaker than the SMPs and a lot weaker than small caps and a lot weaker actually than the Dow, which are far more defensive in nature.

So something could be going on there, but. Let's see, as it were. Yeah, one thing I'd mention on that is you, you, Russell was up 3 percent on, on, on on Friday. Now, if you recall, when we saw the deleveraging that scared markets to a 10 percent sell off, the, ahead of that, you saw a unwind of short Russell long NASDAQ, and that preceded and that was also at the same time that the end carry trade started unwinding the conditions to me now is, are we going to have a big sell off?

Probably not, but given what the palace said and the reaction, but the preliminaries to the most recent sell off was, in fact, the yen falling to rising to new strong, strong, strong levels which were now lower than stronger than, and Russell outperforming NASDAQ heavily before we had a little bit of a crisis.

So it's an interesting setup, but I don't think anything really happens in major way until we get the NFP data two weeks from yesterday. Yeah, I would agree. But have we actually learned anything at all which changes our macro outlook? Because what we've been saying is, yes, the economy is slowing. Yes, they're going to cut.

Probably they're not going to cut anywhere near as much as the market has already priced in. And We are definitely not yet at a recessionary stage. We are in a growth slowdown, which is precisely what the Fed wanted to engineer. And we're going towards what could be a soft landing. We're certainly not seeing any signs Of a hard landing up to now.

So is, have we learned anything that changes that? Yeah, I mean, that's my central case. If, if you gun to my head, which way would I be? I would think that, you know, this very, this period of very easy financial conditions, very high equity prices low more falling and low mortgage rates is more likely to, surprise on the upside than the downside, frankly, but the Fed's telling us something else.

So we have to respect that idea that the Fed sees the slowing, but it may not be that they see slowing. What it may just be is they don't see inflation anymore. And if that's the case, I get why they would cut as they've, as many Fed members said up until the Jackson Hall speech that they'll cut methodically and gradually.

And that was their, you know, the rhetoric that they're now putting out. So, that doesn't seem to me that they're targeting an imminent recession. It seems to me that they're preparing the markets for the potential for one, but that it's not here. And so I'm a little bit more optimistic that we'll, again, gun to my head if I had to choose, that we'd get some warmer data versus colder data.

But the bottom line is we're, we, nothing changed in our view. Right. What about the portfolio? Anything that we should be doing or that makes sense to do now, given how far prices have moved, I certainly feel that XLK is in danger given the fact that it holds so much NVIDIA and that the reaction to the earnings could be anything at all.

You know, I, if somebody told me that NVIDIA. Came out with stellar earnings and that they were down 15 percent I would not be surprised at all So the danger of holding xlk here seems to outweigh Any potential benefit as it were? Yeah, I completely agree It's we don't know firstly and we have five percent of our portfolio in it We have exposure to NVIDIA through the S& P, the concentrated exposure at this stage, given the pricing of NVIDIA and the earnings ahead of it, makes no sense to hold.

Right. And what about things like real rates? What what do you think about real rates? Are they getting to a level which makes no sense holding something like Stip in excess of a certain proportion because we've held it since the very very beginning Since 2023 since the first episode because we thought that Given where rates were and we were already at over five percent And the fact that we're getting a real rate on top We You know, we we've been long of it since the first episode is it getting time When we should be lightening up on on that play.

Yeah, the way I think about that is It's done what it needed to do for us and now It's a short term instrument. It's it's one year ish And all of the cuts that are priced into the curve happen in the next 12 months, all of them, you know, within a few basis points. And so what that means is the price of the, of the thing we own, for it to appreciate, they have to cut more than is priced.

Or else we benefit from being in cash or in our case, the way we use cash is the treasury floating rate note. And for me, 200 basis points of cuts is not attractive. And so, and it shows through in the real rate, which two year real rates are around 1. 6%, which is, it's just not attractive at all anymore.

So yeah, I think we can, Sell some of that and I, and given that it's mostly our cash reinvested in cash that is you know, more attractive. Absolutely, because I certainly think that the market might be surprised by a slower rate of Fed cuts over time. And certainly a floating rate note yielding 20 basis points above Fed funds is going to be more attractive or certainly produce a better stream of income.

I'm getting quite uneasy about the dollar. I mean, I've been saying for several weeks that the dollar is going to fall. And I really. I think that when in periods when the dollar is weaker, international equities tend to do better than not so much better than the U. S., although sometimes they do, but there's certainly a better risk reward, i.

e., a lower risk proposition because those indices tend to be more defensive in any case. And if the Fed is right And, you know, we, we do get a bit of bad news in the U. S. They're more of a hedge than the S& Ps are. Yeah, in particular, you know, we said that the Fed sold a sold a put on bonds. That's essentially selling a call on the dollar.

So, the dollar doesn't have much upside. It could rally, of course, but it doesn't have much upside given the cutting cycle that we're about to have. And given that other markets have very different cut policy paths. Yeah, it doesn't make sense to so I agree and think being long foreign stocks in their own currency, which, which an unhedged ETF provides versus the U S makes a lot of sense.

We're selling some XLK. What else should we do? Well, I think we should probably reduce slightly our SPY. And overall, I don't think that the equity position needs to go much below 30 percent given what we know now. We should stick to that around 30 percent allocation. But we should slowly, slowly diversify away from the US and into international stocks because it's a better risk reward, especially going into the November elections.

Who knows what's going to happen there? And if it doesn't work out, we won't lose very much, but certainly the risk reward is better in international stocks at the moment. And I'll cover that all in my section and what we propose to do first thing on Monday. Fantastic. Have a good weekend. You too. Bye.

Bye. So let's have a look at the account while the PNL is progressing nicely. I did make an error last week and I only managed to buy EM and EMXC. I did not manage to buy a HEWJ because it just ran away from me and I just don't want to to chase it because I think there's a very good chance that there is a reaction lower in the next few days because the yen is appreciating and therefore I thought it would be silly to chase it.

So far, wrong, but I'm hopeful that I will get them. So let's have a look at what the orders are for next week and why we want to do what we want to do. We want to sell 100 percent of XLK because I am really quite afraid of what the market reaction might be to the NVIDIA earnings and We just don't know.

We just don't think it's appropriate to take a big chance on one stock. Certainly not in this kind of account. So, first thing on Monday, we'll be selling 100 percent of our holding in XLK and buying ACWX with the proceeds. ACWX is basically a large to mid cap international equity ETF. Quite a bit of defensive stuff and certainly quite a lot of financials which should do well during a period of dollar weakness and also when the Fed is cutting rates because financials tend to do quite well then.

I have put in an order for the 4 percent of HEWJ from last week at 39. 71 and when I If I get filled on that, I'll sell 2% of SPY at the same time, because why? I want to keep the equity allocation no higher than about 32% in total. So I'll be selling XLK and buying one for one with the proceeds in A CWX.

So that will keep my total allocation to equities around the 30, 31 level. But also, then if I buy 4%, I'll be at, you know, 35. So really, I want to be no, no higher than 32, 33. And that's why I want to sell the 2 percent of SPY. But the one thing that absolutely makes sense now is to sell 50 percent of the STIB.

and buy USFR with the proceeds. The likelihood is that STIB is getting to levels where it can really not help us very much. While USFR yielding 20 basis points over Fed funds is more likely to have a greater income over time. So we'll be selling 50 percent of our STIP and transferring all the proceeds into USFR.

And we will monitor how that goes for the next few weeks and maybe decide to get out of STIP completely. So those are the orders. The last couple of things I'd like to mention to you is that We have a video, and this is the link to it, how to upgrade your account to 2GB squared from this original program.

And also, should you be interested in switching your account for, to IBKR, I have received a code where you get a 200 bonus in stock, I believe, If you switch, so I just leave it there for you and it's up to you to decide. Otherwise, the broker statement is updated. So is the monthly performance. We're doing pretty well and the weekly performance as well.

Our volatility remains low. And we are delivering on what our mandate for this account is. And finally, so there are no misunderstandings, I've written down what the investment objectives of 2 GB squared and the account rules are. I've, I'll send this in a separate file. I'm completely ready to start the program next week.

I've transferred the money. It's all ready. I just think it's important that you should know what the differences are so you can make an informed decision. And here also, I'll put in the link if you want to open the account at independent interactive brokers. I will. Just show you very quickly what that looks like.

It's a very easy platform and the reason why it's easy is because it has everything integrated in it. It has the futures, it has the cash, you can just look at it and you can just trade whichever instrument you want and it's the reason why I like the I like this platform. Platform. It's very, very easy to use.

And here you go. Here you have the HEWJ order at 39. 71 as a live order. So I really like this platform. I think it makes far more sense than all the other platforms I've looked at. And you get a 200 bonus for joining. If you are considering using 2GB squared, I think you would be wise to get this platform.

It pays very high rate of interest on any cash balances. And it costs the least to borrow stock. So, if you want to leverage something, it's probably by far the best platform. Now, I'm not getting any money for this, I'm just telling you what I think is going to be the best thing for you, if you want to follow the 2GB squared account.