Nick: Good morning, and today is the 9th of November. We've had an exciting week with the elections and the FOMC. We've got the red wave, Andy, right? So equity is up 4%, more or less as we predicted. We've added, and see no reason to not be happy with that. And the FOMC also cut rates and were neither bullish nor bearish kind of thing, neither hawkish nor dovish.

In terms of forward guidance, what did you make of last week if anything different?

Andy: Yeah, I I mean I think heading into the election the betting markets and were favoring trump, but not aggressively Polls were more neutral More of a toss up and that created an equity market that basically reflected the midpoint of The post election results which and the and the big deviation between the post election of all vote events was in a red wave they could cut corporate taxes and you know well with whether they will be or not the market reacted as if they will and so that's worth essentially four percent and that's exactly what we got and that's why we thought we would get what we got and we got it.

So, you know, now we start to look forward and the FOMC, as you said, confirmed that they are, you know, they're considering whether September posture on the economy needs to be recalibrated to something stronger. And, you know, we'll see the results of that in the December SCP, but we have two inflation, um, cycles to go through.

One of which is this coming week and an employment cycle, which should, um, Which is expected to reverse some of the weak numbers that we got in the hurricane impacted last job report. And then we'll see whether the Fed thinks that they have, that the economy is stronger. And so their cutting path will be slower and more, more, more measured and probably to a higher trough.

What I would say is that, all that being said, After all the events, the market pricing for the Fed path is much, much more hawkish, certainly than it was in, in September before the 50 basis point cut. And even since yesterday, since the Fed, the Fed announcement on Thursday. So you look at that and say, the market is prepared for a stronger economy in the short term and is much more hawkish than the Fed.

And so the CPI and PPI numbers are weighted toward that, uh, pricing, meaning that even relatively warm CPI and PPI numbers, which would probably take 25 basis points of cuts off the table for December, won't have a big market reaction in the short end of the curve, meaning the short end of the curve looks fairly cheap.

Nick: Yeah, no, yeah, you're right. The market is certainly priced for API and inflation numbers in general going forward, which aren't going to be too friendly towards it. That might or might not be correct. We will see. But certainly the risk reward at the very short end seems to be pretty good. There, the, the likelihood of much higher short term rates is very, very low.

And there is a higher probability that if CPI cooperates, the Fed does cut again in December. So we will see, but certainly I see no reason to deviate very much from what we've been thinking for the past I mean, the whole year just about that we have a strong economy that any kind of slowdown is only temporary.

And now what we have to look forward to is also the deregulation that Trump has promised, which tends to be very bullish for the equity markets in the longer term. And as you said, corporate taxes, which have now been fully priced in. So I really don't see why we should really waste our viewers time on what has been.

In the past, but we should really look forward to what our positions are and do we really need to change them at all or what we need to change going forward for the next two months until year end? Yeah, I agree. Just

Andy: briefly before we jump to that, we've, we're going to get a lot of interesting data.

There's, you know, the, the, the firstly you'll get the actual. Announcements of who the various cabinet members are going to be. We got some news on that with Lighthizer being leaked as the trade representative. And you're also going to start getting a lot of sort of those players who are buying for that, those jobs leaking their sort of details of their financial plan, their economic outcome, and that'll create market moves and chop and so on.

But the big picture is that, you know, we have some data. The market's prepared hawkishly equities of recap have repriced relative to taxes. And from now on, we're going to have to react going forward to the data. I think we should mention we're doing this a little differently today. We're going to have a more extended version of the call for each of our product bases.

So we're going to if you are Part of the original package. We're going to break to a section where Nick and I talk about the original positioning. And if you're part of the squared package, there'll be again, a separate video for that.

Nick: Absolutely. So let's have a look at our positions and what we want to change and why.

Okay. So these are our positions. As you can see them, we have roughly 38 percent in equities. Mostly about 24 percent in SPY. Then we have QQQ, we have the Dow DIA. So we have in total about 30 percent in the U S and about seven and a half percent in outside of the U S we have. Emx and acwx, which is everything but the us kind of thing What do you think of that?

Is there anything that we need to change or add to it now?

Andy: Right. So, you know equities are have made that correction that we just talked about in the video regarding the tax impact U S equities for that reason have outperformed the rest of the globe because it was a one off tax change. And going forward, you know, there's the seasonal effect, which will generally keep equities supported.

And really it's a combination of people who don't want to take capital gains tax, not selling. And people who are performance chasing, who are under allocated to equities for whatever reason, or under. Allocated to certain equities for whatever reason tend to buy. And that generally is the seasonal effect.

But on the other hand, that may have been front run a fair amount. So I would say I w the way I deem my equity positioning now is fairly neutral with an eye to the bond market to see if the bond market continues its neck downtrend and. If it doesn't, or it continues, it reverses that downtrend, getting a little bit more constructive on equities.

And if it does revert, um, re return to trend less constructive, but right now, in fact, negative right now, pretty neutral.

Nick: So really what we are saying is, and correct me if I'm interpreting you wrongly, is that you're saying that the only danger that equities Uh are facing is a steep increase in longer term bond yields

Andy: Yeah, and the opposite is that the support for equities is seasonal flows which you know are real and so With those two offsetting things pretty neutral

Nick: So do you see any reason why over the course of the next week bond yields by long duration should really move very much?

Because if not, then equities are unlikely to move either

Andy: Right. And

Nick: the next

Andy: week, the, we have no auctions of, of consequence. And, you know, you're going to get all the noise around the administration changes, but really the only data is the CPI as I said, it's at least in the short end of the yield curve, it's pretty neutral.

So, okay, that seems to me to be, bonds aren't going anywhere unless the CPI is extremely cold. And in that case, I guess you get a bond market rally and a equity market rally.

Nick: So, let's have a look at what we have in bonds. All we have is an allocation to SLQD, which is 0 to 5 years. Average duration around two and a half, three.

And we have 21 and a half percent in that, but that's all we have in bonds. And then we have about 19 percent allocated in USFR, which is the floating rate note, given that we don't think that very much is going to move. And given that the yield in SLQD is now going to be at a par or slightly higher than USFR, do you have any views whether we should move forward?

Take a little bit away from USFR because let's remind our viewers why we put it in USFR because we thought two, three months ago, the terminal rate would be higher than the one that the market had priced in at the time. And now that terminal rate has moved a hell of a long way. It has moved all the way about 60 basis points, 70 basis points.

From when we decided to do this. So would it make sense to reverse a little bit of this trade and invest some of that USFR into SLQD because I certainly prefer corporates to US treasuries because of the spread and the lack of danger in corporates.

Andy: Yeah. I mean, corporate spreads have narrowed a lot, but for good reason, corporate corporates are flush.

So I really liked that idea for two reasons. One, because. It's spread does give you excess yield and two, because it does extend our duration modestly to a point in the curve that is already priced at extremely hawkish levels relative to even the data, let alone the fed, who is being a little bit more dovish, yeah.

Is it a big deal? You know, it's, it's a, it's essentially a change in our cash allocation to something that is pretty darn safe as well and gives us extra yield. So,

Nick: yeah, I like that idea a lot. Makes perfect sense. Anything we should change in the cash and cash light, because we have quite a bit of stip, very little in box, but.

Is there any point in keeping it kind of thing or is there anything else that we should do that?

Andy: Yeah, I prefer I prefer real to nominal.

Nick: Yeah, so, you know, I think that makes sense definitely and that piece of advice is keep it in real rather than nominal for the time being until we know what the policies and the effects of the next administration's policies are going to be on inflation Keeping it in real rates, I think makes far more sense than keeping it in nominals because the danger is much, much lower.

So that makes complete sense to me. What about gold and, and G and commodities? Is there anything that we need to do there? Because commodities are really there only as a hedge against inflation kind of thing. And we are not having any it doing, you know, it's such a modest allocation that I hate to cut it.

On the other hand, it's doing nothing at all. It's not useful as it were, right. But it's probably in a, in a long term diversified portfolio. It's definitely something that has its role.

Andy: Right. And you know, short term, the Trump administration is probably less friendly to crude oil than, than other than, than the alternative.

And so you have seen a little bit of a sell off in crude, and that's obviously an important part of commodities. And I don't think it's, there's going to be a big correction, but I think you're right. I think you look at our allocation to gold and commodities and you say, are we underweight, overweight, or.

Neutral rate. And if we don't have an opinion, I would always want to be neutral rate. And I think we're neutral, right? Right.

Nick: What about gold? Should we be thinking about levels to add to our gold allocation?

Andy: Yeah. It looks to me like, you know, we had this big run up and now we've come back a little bit, but the conditions to support gold post the, the election seemed good to me.

And so, you know, it's, it's, it's a bit of a gift to not chase gold. So yeah, if we can find levels that you like that can increase our allocation of gold, that makes sense to me.

Nick: And it certainly would make sense to get rid of our box, you know, one and a half percent, which is not doing anything very much at all, and put it in gold at some stage if we get to certain interesting levels.

Andy: Right, right. The cash like stuff. Again, it's a little shift toward reals

Nick: Excellent. Okay, and i'll go over all the levels where and and exactly what we need to do, but overall We feel that equities are really going to go nowhere over the course of the next couple of weeks Maybe slightly higher, but it's not going to be a move which is anywhere near as large as last week's The the one thing that is going to support equities as well.

We haven't talked about these Buybacks because now we're going back into the buyback window It's opening so the likelihood of equities going down more than one or two percent Is really not all that great. And if we see some kind of a dip, we should definitely advise you to buy and add, maybe take equities up to 45%, something like that on a dip, but that we will do via the website by posting an update.

Sounds good. Right. Well, let's have a look at our positions. 41 percent in equities around 31 to 35 percent in the U S basically, and 6 percent abroad. The abroad is doing us absolutely no favors at all. They sold off last week. Should we keep them Andy? What do you think?

Andy: Yeah, I mean, I think the important factor in markets last week Obviously the election we talked about and the fed was the tax change and so U.

S. equities outperform the rest of the world for that reason Um You know, I think that having some diversification at this stage after the repricing makes a fair amount of sense. So I'd stick with our, our foreign equity allocation at this point.

Nick: Now it makes sense to me because the only reason why they sold off is because everyone was doing the spread.

They were buying SPY, selling The foreign equities and at some stage the foreign equities will bounce because spui will you know Will go up or they'll do it'll do nothing for a while My own view is that if is that spui does very little over the course of the next couple of weeks net net What do you think andy?

Andy: Yeah. Yeah, so i'll come back to the rest of the world too But as it relates to the u. s equity market what you had was a very Transcript Instantaneous shift that reflected a red sweeps, likely ability to cut corporate taxes, which should have been an only us equity impact because all of a sudden us equity corporations are going to be able to retain more earnings versus handing them to the government.

And so you got a, essentially a digital move to a new level. Now, here we are, and we have these two flows. One is, you know, the bond market. If it were to continue on its downtrend and make higher yields, I would be concerned about equities. And that's a real possibility that the bond market. Continues its downtrend.

It's in a downtrend, a long term bond market. On the other hand, equity flows are generally positive this time of year as those who have winners that are large taxable gains don't want to realize taxes in this calendar year and defer selling until the year end. Till January and also because those who are under invested in equities who had been underperforming whatever benchmark they have are concerned about their jobs and want to get fully allocated at least by the end of the year.

So those two flows tend to be bullish and they call that the Santa Claus rally. And so you have competing things, uh, With already relatively extended valuations and already relatively extended positioning And so to me right this moment i'm pretty neutral on equities and you know would buy dips because of the seasonals and also because Of a very strong economy supporting equities over bonds with one eye on the bond market in case the bond market resumes its trend to lighten up.

Nick: No, I, I, I'm with you. I think the only thing which derails the, the bond market, the stock market rather is the bond market. But I think it's unlikely to happen in the very short term. I think the fear of the Of the trump red wave has now passed I think until we see what the policies are We are unlikely to make big moves in the bond market And I don't think we get that over the course of the next couple of weeks We might get some announcements about who is in what position and what they might like to do You But I don't think the bond market is really going to be able to react or the long end, the long duration is

going to react immediately to an announcement that so and so is going to take this position or anything like that.

So I think it's going to be a couple of weeks of stability in the longer end of the bond market and therefore probably Slow upward drift without much conviction in equities. That's what I would say. And really selling some out of the money calls is probably the only way to add some value to your portfolio.

If you are that way inclined, but I'll go over that. In my section about what I think is a an appropriate strike an appropriate amount to do

Andy: Right and just coming back to the rest of the world. We don't have much exposure to this at all I don't think but the china market definitely Took a large retracement on relatively disappointing fiscal stimulus through Friday morning.

And that continues to be a concern and it could weigh on the Asian equity markets more broadly, but it's pretty narrow to China. And so, yeah, I don't think there's a good reason to get out of equities or necessarily add non non U S equities, but China's Probably having an impact on non U. S. equity portfolios at this stage.

Nick: So in bonds, we have, all we have is SLQD, which is zero to five year corporates, which is the area that we both like, right? That's probably the, the shorter end. And we've talked about the shorter end being priced hawkish. And therefore that is where we want to stay. Should we add to it because we still have 15 percent in cash, cash, cash.

And we could add some to STIP and we could add some to SLQD.

Andy: Yeah, I think, well, I think we have to talk about the commodities portfolio as well and we'll come to that. But I am, of all the places in the curve and the best way to express it for a long portfolio, the combination of corporate spreads plus Already very hawkish pricing in the two to five year sector of the yield curve Makes me think that's the best place to put it So yeah, any access any cash that we can put into that area, uh makes sense to me

Nick: Okay, and golden commodities.

We still haven't touched them. We haven't added We definitely want to add to gold, but we are not so sure about commodities, right? Yeah, I

Andy: mean, uh, the Trump administration is, is, has a lot of policies and we don't know what they're gonna be but one thing that is pretty clear is there is a high priority that, toward increasing production in the U.

S. domestic oil industry, which should weigh on the price of crude and thus on commodities, plus there's a variety of Of of ideas of cutting spending that generally is anti real growth And so, you know, it's not a place i'd want to spend a lot of time in particularly the oil industry so Broadly, yeah, I think we can wait on commodities at this stage Do you and

Nick: let's find some levels and i'll talk about that in my segment later on about where to act to buy Some gold finally gold has gone down You Simply because the bond market has been backing up, rates have been going up, real rates have been going up, and the dollar has been strong.

So that is why gold retraced last week. Is it time to buy it right now? I'm not so sure, I think it might have another leg lower, but definitely we want to add at least 7 or 8 percent. Uh, and have our gold allocation to at 7 to 8 percent. Fairly soon, right? Andy?

Andy: Yeah. I mean, I agree with all those things you said.

I'd also add you've already had sort of a worldwide response from a lot of the places on earth to a new president, which is totally natural. But you've also had some more discreet changes in terms of, you know, the support of Yeah. Catter for people of Hamas that are in residence. I'd like to, and you've also obviously had this, the whole year Ukraine war issue has been that sort of Trump in anti that war, it's possible that some of the weakness in gold, and I'm just speculating here, some of the weakness in gold is on a sort of world peace dividend where, you know, conflicts may get more, more likely to get resolved under a Trump deal team then a Biden.

Top team. So that might be part of the issue, but it's still a buy the dip moment. So, you know, as I think Nick's absolutely right. We want to, we want to have a, this is a lot only portfolio that can be levered, can obviously do other things. It's more sophisticated than our original product, but we do want to have a sort of a neutral weight in commodities, gold.

Equities tips and bonds, but so we're heading in a direction to have a gold allocation and a dip would be, I think, an attractive place to to enter into a meaningful allocation, probably even an overweight. Excellent. So I'll just find some

Nick: levels and talk about that in my segment just now.