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. 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.