

Nick: Hello, everyone. Today is the 22nd of February. We had a relatively quiet week in terms of data, didn't we, Andy? But we certainly are beginning to get a bit of a signal from the price action. So do you want to tell us what you think happened last week?

Andy: Yeah, sure. So, the data was anything is sparse.

Yes. If anything, it showed slightly higher inflation and slightly lower growth. So there wasn't a big amount of macroeconomic data. There was some microeconomic data in the Walmart earnings and broadly speaking the, there's, the economy is not showing anything, any real signal that it is heading into a growth scare.

However, the market pricing did begin to reflect concern about growth with bond markets rallying and equity markets selling off sharply on Friday. And. What I would say is absent what I think has been a pretty persistent signal that I've mentioned over the past few episodes, going back to January I think the combination of the policies of the Trump administration to cut jobs in the government, to cut expenditures, broadly, to tariff, to reduce tax increases.

The labor supply by curtailing immigration are all negative for growth. And at the same time, the, since the Fed cut 50 basis points in September of last year treasury yields and term premiums have expanded a lot, have gone up a lot, and that's, and the Fed has gone from being in September, we expected a lot of cuts, and now we expect no further cuts, or at best, small amounts of cuts in the near term.

And so, financial conditions have tightened. So, to me, those are the big signals. Slowing growth is likely to follow those big signals, and The market began to show that as a signal in its price action this last week.

Nick: Yeah certainly Friday was a bit of an eye opener how quickly stocks came off.

And how persistent the offer was throughout the day I don't think I've seen a day that there was so much deleveraging going on And I haven't been positive on bonds for a long time because I think they are You know the a don't think the term premium is high enough. I don't think real rates are high enough But it was noticeable all last week that even in the teeth of data that showed More persistent and even higher inflation Bonds wouldn't come off and that is normally a sign of people switching out of equities And buying what are they going to buy?

Well, they're going to buy bonds. They're going to buy fixed income in general because either they're gonna lose less money or they're actually going to make some money as opposed to equities where they will certainly lose during a growth scare. The question then becomes, are we going to go into just a scare or will it become something more than that?

What are your current thoughts, Andy?

Andy: Well, as I said, I think the big picture remains that we're going into a second quarter slowdown, a combination of still high, even though we had a bit of a rally in bonds, still high term premium, still high, bond yields still a Fed that is on pause and the most likely outcome of the Trump administration agenda as that gets implemented is, forward looking anti growth. And so when you look at data, for instance, we could have a hot nonfarm payrolls data, not this week, but the following week, and, that could be the residual of the economic strength in the 3rd and 4th quarter of last year that shows up in jobs, but market participants are going to say, well, wait a second.

We know that number's coming down when the government jobs come off layoffs come on, off the payroll. And so, there's very, it's possible inflation data could stay hot as well. Certainly there's no sense that it's coming down rapidly, but I think markets have moved on from disinflation being a driver and are comfortable with, okay, we're a bit above target, unless we accelerate, it's not really a problem.

And with this. Growth impulse, negative growth impulse, inflation is just not going to be the problem. So I think people will look through hot inflation data, and I think they'll look through hot jobs data until and unless the Trump administration significantly reduces its anti growth policies.

Nick: Right.

Andy: So,

Nick: what would you think is a I don't know a normal number for equities to back off from all time highs looking for a growth scare, but actually not getting the data that it is a growth scare. Would you think that four or five percent is a normal number to look into? Look for in terms of what equities should back off from all time highs Or it's unlikely to be much more than that until we get the data, right?

Andy: Yeah, markets are funny that way I wouldn't have thought the bond market would have done what it did and think that long term bonds rallied too much. Where I think two year notes did just fine in into this growth scare if the growth scare manifests into falling persistent falling growth, there is no level anywhere close to current levels that I'd want to own equities, but in the event that it turns into, and markets are funny in that in the near term, whatever, even if it, whether it's a growth scare or an actual growth slowdown only matters if you want to buy the dip because you don't want to own equities.

So the question is, where do you buy them? And because markets are funny, I wouldn't be surprised at all to see. Okay. A bounce of some sort regardless of it until the data really follows through, which is what Nick saying. I don't know. 5850. Yeah,

Nick: that sounds about good. So what are we? What are we looking for next week?

All we have is supply at the short end, which probably is going to get lapped up because people are afraid of what equities might do going forward. In any case, it's only twos, fives and sevens. So it's nothing really to write home about. It'll get bought for sure. The only question is there a couple of basis point back up or not?

And that's really not what we should be concentrating on in terms of data. It's really all secondhand stuff. And really GDP for the fourth quarter, who cares, right? Because we are looking forward to what is going to happen in Q2. 2025, we're not even looking at what's going to happen. Q a Q one 2025 and call BC, which is Friday's number and the most important number of the week is already known because we know what CPI and PPI are.

So really the market can only take its clues. From the way the price action develops next week, as opposed to anything else do you have any perception of what we might be in for?

Andy: Yeah, actually, this is all just guessing because markets are funny in that way. They, Might have gotten part of the selling.

Yes, on Friday may have been options expiration related. There's all sorts of other noisy stuff that's coming and I'm sure bearish sentiment is getting very aggressive and that might create a very weak open or overnight session on Sunday. But for me, the big wild card and Is is there further developments on the fiscal side or do monetary officials say more?

They said something last week that was meaningful and I think impacted the long term bond market. Secretary Besant was interviewed by Bloomberg Surveillance and said that terming out the debt, which is issuing longer term coupon debt, was a long way away. And, he depends on the deficit coming in a lot for that to happen, but he said that and that supported long term bond prices and the Federal Reserve, which mentioned they were going to tweak their reinvestment policy, which I thought was very important, but.

Not for this conversation at the moment said they're going to pause QT during the period of the debt shut showdown or thought that a few members thought that might be a good idea and the market took off on that. And so, for me, next week is the sort of thing where if you could reduce your equities at Friday's close, you're not going to regret that if you could reduce your bonds.

At high prices. At modestly higher prices reflecting, a further risk off rally. That might make sense to me.

Nick: Yeah. Now, I think there's very little likelihood that now equities can make new all time highs. I think people will be looking to try and break this range to the downside and try to go four, five, six percent off all time highs.

And let's see where the stops are. But I don't think the bond market is going to help the the equities very much. The the bond market is priced. For perfection at the moment the fed Isn't going to cut because inflation is still far too hot And we are already trading through fed funds on a decent part of the curve So unless this growth scare really does manifest itself I think the likelihood that bonds can really help equities insofar as they cushion the the fall in equities.

I think that's pie in the sky. I think that's not going to

Andy: happen. I so I think that's pretty much says it. It's still, you want to still be conservative. In your allocation, assets could suffer broadly. There's no real return in bonds except in a real slowdown, and that's going to hurt equities.

So it's time to, sell little bonds, sell little stocks.

Nick: Basically de leverage and wait. Excellent. I'll speak to you next week, Andy. All right. And I'll tell our subscribers exactly what we're doing to take advantage.