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Nick: Hello, and today is the 29th of March, nearly quarter end month end. We had an interesting week last week, didn't we? Andy Equities again fell apart Thursday and Friday. They just could not sustain gains. What do you think is going on at the moment? What is the big macro backdrop? Because we are not getting any weak data as such.

We are just in the middle of a growth scare and no prospect of getting out of one. But the data still isn't supporting it. What is going on?

Andy: Yeah, the

it seems clear we're in a growth scare asset. Prices are acting like that. There is, going from the front end of the curve where three cuts are now priced in for 2025, despite the Fed continuing to say that they plan on two or possibly less and think the economy's in a good place. And equities are selling off, and that's consistent with a growth scare.

So yeah, it seems like there is a concern of falling growth. Now, this is something we've been saying we expected for months now but it's now playing out in markets and continues to play out in markets. And so, we have to. Firstly say, why would there be a growth scare? And I guess the first thing is the Fed has gotten significantly more hawkish in, they're on pause and they continue to reiterate that view.

And part of that is because of policy uncertainty, which is broadly anti-growth. We've seen nothing but expenditure cuts and tariffs and immigration and all of those things are anti-growth. And so, and because of the tariffs there, it and the immigration, it's inflationary. So those combination of things are scaring markets and I think they should be scared.

Now that said, the question is how scared. We've had a meaningful move in equities down 10 ish percent now. And that would, in most scenarios where you have a modest growth slowdown, that would be a pretty me meaningful correction. But I think that it's also clear that while growth is slowing, equity prices had been extremely.

Optimistic on growth. And so this correction to me is not reflective of an actual growth slowdown. And so now the question will become, when will the data turn over? Or maybe it won't.

Nick: Right, because certainly the data is not responding as yet. The first opportunity we have is NFP next Friday, but I still think that's probably still too early.

And as you say, rates are reflecting. I. Somewhere in the middle of what is probably going to happen. My own feeling is that either we get out of this growth scare without too much of a slowdown, in which case I don't see why the Fed should do anything at all this year in terms of moving rates, or we do fall into a.

A shallow recession, in which case I think they'll probably do twice as much as is priced into the market. So where we are is disequilibrium, and I personally think that equities probably haven't retraced enough yet as well. I, I. I seem to be in the same camp as you because really equities on the quarter, the SPY is only down 5% and 5% retracement on such a potentially significant policy changes.

And you said tariffs and everything else that could be hitting us in the next few months. Could well not be enough. So, but it is US equities that are being repriced. All the other equities all around the world have had pretty decent returns for the quarter. You've got Europe up double digits. You have Japan up 3%.

You have the rest of the world without us up. How much? About 7%. So if you say the rest of the world is up 7% and the US is down 4%, well that, you know that's a meaningful swing, isn't it? And probably that kind of behavior continues during the second quarter until, and unless we get a complete reversal of the current administration's policies.

Do you think that is realistic?

Andy: I don't the concern for me isn't whether the policymakers will shift given what, as you said, a shallow sell off in equities and no sign in the data of weakness. What's more, the thing that I think would be it's hard to say bullish, but. In terms of policy.

But the thing that can save us in terms of this slowdown is if somehow the Trump administration wasn't able, like, legally able to. Do what it wants. And

that in particular is around expenditure cuts, but also possibly tariffs. A lot of the pushback so far in the tariff information we got last week, and let's be clear, what happened last week was, again, data relatively okay.

Auctions relatively okay. And tariff news on Wednesday really turned the market and that was the auto tariffs. And that just continued throughout the rest of the week with despite. The European Union saying they're, they have a list of concessions that they're going to offer. And Mark Carney from Canada saying along with Trump saying that they were, they had constructive conversations and Trump using terms like that our tariffs will be nice and fair and lenient.

All of that was rough. Pretty much ignored once the market started coming down. So when you think about that, you say, well, why It's possible that some of the existing treaties, including the Atlantic Treaty and the us Canada, Mexico trade agreement all are reversed legally and prevent Trump from doing what he wants.

But absent that, I don't see any. Lack of commitment to make the changes the administration is making. And those are anti-growth and will show up in the data eventually. And as of yet, have only showed up in survey data and some retail data retail sales data particularly. And so. We'll see. I would expect though, that as we look forward, we have NFP, which we'll talk about the events of next week in a moment.

But we also have a earnings period, which starts in the later half of April and goes into early May. And I cannot imagine. A better opportunity for the US corporation to guide down its outlook.

It's an easy story. There's great ideal. Fed is telling the story. There's great uncertainty. Companies that are struggling are going to really guide down because they're already struggling and those that aren't struggling have no risk, no at all of guiding down so that they can beat come the second half of the year.

Nick: No, I absolutely agree with that there. I don't think there's a single CFO out there who is not going to take the opportunity to make his balance sheet look as bad as possible. IE throw everything the kitchen sink at it so that he can beat and beat comfortably in this period of uncertainty.

And nobody will be looking to beat in Q2. They'll be looking to beat in Q3. So that is when really they will try to beat. So I think we still have several months during which equity prices can make new lows. I look a lot at what insiders are doing and insiders, company insiders are still selling.

There isn't any sign that they're beginning to buy us yet, which tells me that they're going to guide lower and therefore that US equities are still probably the least attractive place to be in the equity space and will continue to be so for the foreseeable future. Now as to what happens next week, li Liberation Day on Wednesday.

Do you have any expectations that we will have any more clarity as to what happens after Liberation Day?

Andy: Absolutely not. I think liberation. Well, let's just step back and say it's possible that the tariffs are meaningfully less than expected. It's not likely, but it's possible. And that may generate some sort of relief.

It's possible tariffs will be exactly as expected, and that may generate some relief. And even frankly, it's possible that there were worse than expected, and that will cause the market to sell off, but then generate relief. And the relief would come from the idea that the news has occurred and. The fear of the news generates a relief rally in stocks and perhaps a relief sell off in bonds.

But that would imply that somehow there's a cathartic end to what. The tariff debate is gonna happen. I don't see it that way at all. I see this as not the be the end of the beginning of the end of our discussion and about tariffs or the absolute end of tariffs. I think it's the beginning of tariffs or the end of the beginning, I guess is the better way of saying it.

And I think what will happen is. We will unilaterally put out our tariffs, some of which we've leaked, some of which we've discussed with our trading counterparties, but not the full gamut. And then like we saw a completely out of the blue extra auto tariff. And at the end of the day, on Friday, an extra pharmaceutical tariff was hinted at.

They'll also be the. Response and the counter response, and the retaliation and the escalation, and this is an ongoing thing. Why is this ongoing? Why is this? Because the. United States for many decades has lost manufacturing jobs to the rest of the world and has put at risk its national security, which became quite evident during COVID by HA, offshoring its productive capacity and so.

If you believe, and it's fair to say he may cave on this, but if you believe that the Trump agenda is to shift some of the jobs in services in the United States, 'cause we're not gonna manufacture more workers, shift some of the jobs in services and and retail and things like that to manufacturing.

And improve, which presumably has more attractive wages and, longevity and, it's the old American dream jobs of manufacturing that have gone away. If you believe that is a motivation, which I think it is. And you believe that the principle motivation is a national security motivation to.

Onshore our supply chain so that we are less at risk to allies and enemies and pestilence and war. And if you believe that, that's the agenda, that doesn't happen overnight. That's a multiyear. Plan. And so I think it's the end of the beginning on Liberation Day and we will be dealing with the reshaping of global trade

Nick: for years to come.

What are the implications for investments in that case? Do you think that basically what you're saying is that US equities are, have started a long period. Of underperformance relative to the rest of the world and that probably US bonds have started a period of outperformance against foreign bonds, especially developed markets kind of thing.

Yeah. So you're talking about the spread between Europe and the US coming in, in terms of bond prices, and you are talking about the valuation, the multiples. On equities in the US coming down. So it's no longer in the twenties, but it might be in the high teens more. Yeah, sure.

Andy: That's a very normal, that's a very normal outcome.

The, we can be domish and we're not, let's be clear, we think equities are still a sell the rally sort of market. Domish is much, much worse than anything we're discussing here. We're talking about a multiple, a slice of the multiple just a multiple point or two. And that's it. We're I.

Some of that, maybe it's a slice of one multiple point and a degrading of our earnings growth by a few percent. That could take the equity market down 10%. We're not talking about disaster here. Nonetheless, the trend that we're talking about is one in which the US has. Us invests in and foreigners invest in manufacturing capacity, squeeze jobs tighter.

As the transition from service to manufacturing jobs increases, and because of that transition period, our productivity in these new enterprises, number one, is already less efficient than offshore. Alternatives without a major currency change. And because it's less efficient, we get less production. So that's, and

that's a, I hate to use this term because people use it wrong and I'll be using it wrong.

That's a stagflationary outcome and that's very bad for assets. Bonds can do okay, but not great and equities hate that. And the conditions elsewhere are disinflationary because all of a sudden they're gonna have a ton of production. They can't move to the United States, so goods will fall there. And, anti-growth, but offset by what we've now seen as significant fiscal stimulus coming from in Europe and in China, which can make their equity markets do pretty well, particularly if the monetary conditions in those countries remain relatively easy, which they are in China, Japan, and most recently in Europe.

So those are pretty good conditions for stocks in Europe, bonds in the United States, and pretty bad conditions for stocks in the United States and bonds in the rest of the world. And so the question is, what do we do today? So what do we think?

Nick: What do we think about what? About what we're gonna do to be, well, we just

Andy: said about European bonds at US bonds, European stocks, US stocks.

It's not a, this is not a, this transition that we're talking about, this multiyear. Reshaping of global trade has long-term investment applications, which implications, which we just went mentioned better US buyer of bonds, better seller of US stocks, better buyer of European rest of world stocks, better seller of rest of world bonds, but.

It's a multi-year trend. Next week we have two things happening. We have the pot, the tariff, which we just described as being the beg, the end of the beginning, that of a long trade war and NFP, which. For all intents and purposes, likely gonna be okay.

Nick: Right. But the risks to it are very much skewed to the downside, aren't they?

Yeah. Because if we, if NFP is as expected, everybody's going to say, well, so what? The weakness of the data will come in next month. It's too early now, but should we get any weakness in NFP? I don't see why we should, because weekly payrolls have been steady in line, so that is low odds. Then everybody's going to sell US equities like crazy.

If NFP is weak, they'll say, ah, here we are. This is the confirmation of the growth scare, and it's no longer just a growth scare. It's possibly recession, so you're gonna have a pretty nasty day on Friday if that were to happen. I think the odds of it are very low, but the implication we'll be saying are very clear.

The trend in returns from Q1 is probably going to continue in Q2 and Q3, which basically means that the worst performing asset is likely to be US equities. The best performing asset is probably likely to be some, a little bit of duration in the US rather than anywhere else, and things like gold.

And rest of the world, rest of the world equities, that is where the returns. Do think it's time to get

Andy: in rest of the world? Equities at this stage I think that trend has moved a long way already.

Nick: I. I think that what you want to do is you want to sell rallies in US equities and then you want to buy the dip, the big dip in rest of the world equities.

Yeah, I agree with that. That is the kind you are in a trading environment, unfortunately, and also one in which you cannot rely on bond returns. In your mix to make up for the losses in US equities. It's just not going to happen. So on any rally you need to reduce US stocks. When you get a big dip, you need to buy some rest of the world equities to bring yourself back up to a 30% allocation in equities overall.

So. I will go through this later on, but our allocation is too high at the moment to US equities on rallies. We will reduce it substantially and then use a dip to buy rest of the world equities and come back to a 30, 35% allocation, but one has to be far more active than we have been so far this year.

Sounds good. Excellent. Speak to you next week, Andy. See ya.