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Nick: Hello. And actually today we are recording on Friday after the market closed instead of on Saturday morning. And we've had a very exciting week, and we are both absolutely knackered, aren't we? Andy? It's been it's been a rollercoaster like we haven't seen for quite some time. Let's try and summarize what has happened.

Several crosscurrents are going on at the same time. One cross current is the Trump reversal, which caused what they say was the biggest one day rally in equities ever recorded. Very close to 10% in the SPX, just under Was the this a real reversal though, is taking. Tariffs down to 10% against everyone versus upping them to 124% to on China, a real long-term reversal.

Personally, I don't think so. All he's done is bought 90 days in which to bilaterally negotiate with every other country. And don't forget this 10% at the moment is the flaw. There will be many more countries which suffer higher tariffs than the 10%, and therefore, all in all, this is a massive, is the equivalent of a massive tax hike.

The other crosscurrent that is going on is that obviously. A certain proportion of foreign capital in the US has decided that the uncertainty level about US economic policy is just too high for them to stomach it, and they have decided to repatriate. You saw something, you, in fact, you saw many traditional relationships between the bond markets and the FX market completely break down during the course of the week, and that was due to repatriation, which is akin to a mini emerging markets crisis result in the US dollars.

So you had foreigners selling their assets. And Europeans mainly hold US treasuries. So they sold us treasuries heavily and they bought euros and they bought Swiss francs and they took the money back home to invest in their own bond markets or equity markets. So that was a big crosscurrent. This week we've mentioned the Trump reversal as they call it.

And we also have now data, CPI and PPI, which were very cold giving the Fed any excuse to be able to cut sooner if they wanted to. But every Fed speaker this week was in fact, extremely hawkish, saying that they're gonna find it very hard to look through the tariff. Inflationary effect and that they're very afraid that effect will actually unan expectations for inflation going forward.

Who knows? But in any case, they were very hawkish, surprisingly so from my point of view. And as a result, both the front end. The backend of the curve fell for two different reasons. One, because of the hawkishness of the Fed and the other because of very heavy selling from foreign accounts. Anywhere near right, Andy, in your view?

Andy: Yeah. And we look at things slightly differently, so let me just give my interpretation. I think the points remain. Looking back over the course of this year we've been calling for a growth slowdown that was driven by a change in the administration as well as the fed already fairly tight.

And on pause. The and interest rates, long-term interest rates ended the year started this year at fairly high levels. And so we've been expecting a growth slowdown based on that. And the Trump administration policies with which saved for deregulation, which is very pro-growth have been about immigration slowing.

Immigration to the United States, which is reduces the labor supply, which reduces growth output. And a series of expenditure cuts both doge and reconciliation, which would reduce government expenditure and thus the GDP until the real eco the private sector takes the. Levers itself up, which they may not do.

So that was negative growth. And then tariffs have been negative growth because the higher prices, the taxes that are paid and the uncertainty created for the business community was going and in the consumer was going to reduce consumption, reduced demand. So all of those were negative growth and our positioning was to be less aggressive in equities long.

And, as it relates to interest rates, relatively conservative in our investment on the, on relatively low duration exposures. And that played out pretty darn well for a while. But what happened in the last week was not that. So you would expect in an anti-growth environment, which continues the.

Albeit the Trump administration reversal or willingness to negotiate, willingness to pause terrorists for 90 days was a breath of life into the equity market. It didn't last. And the, so we still are in this anti-growth environment, but un in a very unusual circumstance, the US dollar, the. Bond market and the equity market have all fallen since the tariffs were imposed on on liberation day.

And that is very unusual because it's not growth or inflation, it's wholesale selling of US dollar assets by pretty much everyone. And there's, there's, talk about it being a hate selling by our enemies or hate selling by our friends, but really it's not. It's when you have a contractionary fiscal policy, I.

And relatively tight financial conditions with a central bank that is not likely to, that can't really ease because of the inflationary pressures on tariffs. And you look around the world and say, is this the best place for my bonds and my equities? The combination of my portfolio? And you look at.

Europe, which is going to do aggressive fiscal policy and has a central bank that is mostly done in their easing PO Possibil in their easing, but isn't gonna tighten in the near term versus the US. And so Europe looks like a pretty attractive place for me to invest. And then I look in Japan, where the central bank has been very slow to hike rates and will continue to be very slow to hike rates And the.

Tepid, the terrible growth for decades seems to have been reversing in the private sector, which is a more attractive place for capital. China's an interesting story of course, but China is heavily easy financial conditions from the central bank and heavily stimulating fiscally all of those places.

Are better places for capital for investors that are willing to seek opportunity around the globe. And I think that kicked in this last month, last week with, and you see it when every US asset except is down. Gold is up as people are fleeing US assets and don't yet want to invest in those other countries and those other countries bonds and stock markets outperform.

So that's what's happening. And the question is that is, is it over? These cha, these trends, these secular trends placed over the last couple of decades have placed global investors massively overweight US stocks and US bonds relative to any sort of normal diversified portfolio. And that's one that's been a great outcome for the global investor.

But if it is no longer such a great. Forward expectation. There's a lot of overweight that needs to be run off either by declining relative prices in the asset markets and currencies, or by actual selling. And so that's what's happening right now in our view.

Nick: Yeah, no, I completely agree with you.

What we are really saying is that far from this being a certain bottom or that we've seen a bottom, we think that if prices were to rise, we'd actually like to get rid of our equities in the US completely. But we are not as bearish as some of the most outlandish calls that we are going to have. A 1987 type crash.

We don't think that is likely. We think that, a slow return of asset prices to a times 18 line in terms of multiples is likely, and we think that uncertainty is going to remain very high. I was listening to the JPM call today and. At the earnings call and the amount of times that, the word uncertainty was brought up. What does that mean? It means that banks are gonna, keep lending standards fairly tight, and it also means that pro, probably private capital is not even going to ask for those loans because they're in a wait and see mode as well. It's. They want to see what the result of this 90 day period while Trump negotiates the tariffs is as well, before they decide where they're going to invest in, which country they can invest and can they reshore to the US.

So many balls up in the air at the moment that these private corporations are not gonna make any decisions, any CapEx decisions anytime soon. Do you agree, Andy? I think that's probably a fair guidance. Yeah. I think the guidance from

Andy: corporations and banks are interesting. They lead off earning season and they give a sense of what their clients.

Doing and they're, what they gave that sense is low business activity, low loan grow low demand for loans the low deals, low mergers and great uncertainty amongst the client base. And we're gonna get a bunch of more earnings in the next couple of weeks. And it's unlikely that there's gonna be certainty by that.

So we're gonna get a corporate. Calendar that's gonna mark down earnings and mark down growth expectations. And so it's tough for equities to rally a lot in the face of that. They actually did okay this week. Because of the reversal intra week and we actually had a pretty good week.

The 10% move on, on on. Wednesday, I guess it was, again, not quite the biggest of all time, but the biggest of all time happened in the thirties and yeah, the other bigger ones happened as while we've been

Nick: alive, let's say as,

Andy: as bounces during 2008. So it was quite a rally this week. So let's talk about next week.

Next week. Well, before we do that, the CPI and PPI were weak. That means that inflation was below expectations. Everyone I know, I don't know a lot of people, but it seems like lots of people I know are asking me, should I be buying stuff before tariffs? Should I buy, should I do my upgrade cycle on my iPhone before tariffs?

The CPI didn't notice that it didn't see a lot of upfront buying that would've re or at least corporations didn't raise prices to meet demand from tariff pre-buying. Which is interesting to next week we have retail sales, which is probably the most, most meaningful piece of data. It's a pretty quiet week data wise.

It'll be interesting to see if retail sales is. Weak as well, which would suggest that the reason why CPI was weak was lack of demand, or, and this is interesting for stocks, retail sales, surprises on the upside. In that case, there were a lot of people pre-buying for tariffs, but. Corporations didn't, weren't able to raise prices that might be particularly negative for equities.

So retail sales is gonna be an interesting dilemma for the equity market. Well,

Nick: as you said, it's negative either way, isn't it? It's either margin compression, which is negative for equities. Or if the number is hot let's game it out. The number is hot. Everyone's going to say, what? Oh, it's pre tariff buying, isn't it?

And next month it's gonna fall off a cliff, therefore they'll sell. So in I, and if it's, if it falls off a cliff, now they're gonna say, oh my god, no demand recession. Right? So the odds are that whatever the outcome, if it's away from the mean, away from the expected number, either way, by a lot, it's going to be a sell equities kind of trade.

Andy: And the question is, will it That's, will it be a buy bonds situation? Right now the bond market is, again, under some pretty heavy stress, both the media's all over the bond market all of a sudden. So it's certainly a talk, a topic of conversation. But when you look at value, real interest rates are high again.

And, we like buying real interest rates when they're high and the Fed is no longer. Well, let's be clear. The Fed is. Expected to cut two or three times instead of six times, which they were expected to cut in 2025 on Sunday night when things were looking very hairy. So. The potential for the Fed to surprise do surprise cuts is now a positive for the bond market, and the long end is now at fairly high real rates.

So it's an interesting dilemma to see if bonds will continue to sell into bad news. If they do that tells you those global pressures that I'm started with of selling globe USS assets are still in place, but it's also possible that declining data early next week would cause bonds to rally. The question is what to do about that and well, it's, that's that's for you, Nick.

What?

Nick: Yeah, no you very much hit the nail on the head because this is both a positioning market and a headline market. What I mean by that is a headline could come out at any moment from Trump. Saying whatever, and we cannot anticipate that. We can only react to it. The other thing is that it's a positioning market because people are in liquidation mode and deg grossing mode.

Therefore, it's very difficult to tell how long a piece of string is. So if. A number like retail sales could come in weak, which should support the bond market, and you could actually see the bond market sell off as people take the opportunity of slightly higher prices to continue their DEG grossing process.

But that does not last. Crisis end. So if we see a weak number next week, we can definitely get in and do some options because I think that, longer term options should, I mean they're not cheap, but we can do some variations of call spreads or selling put spreads or whatever. Simply because positioning is driving this market, but it's only gonna drive it un up to a point.

After that, A, the positioning will be unwound, the market will be deg grossed, and then fundamentals absolutely do matter again. And as long term investors, that is what we are interested in.

Andy: Right. In terms of. As we, as I said, our asset allocation, our cash holdings has been conservative and so we have not suffered like the 60 40 portfolio has suffered, which has been quite amazing, particularly if you're a non-US investor.

But if you're a US dollar investor, both bonds and stocks have gone down a lot. So that gives us the opportunity to look at markets and say. Real yields are quite high. Equity prices have corrected. Is it time to start putting money to work? And I think it may be, but at the same time, this global getting out of US assets and the great uncertainty, the going into earnings, the bond market not behaving well, tells me that you really want to take.

Your ranges of when you might be interested in buying stuff wider, and so you want to buy stuff when it's really being sold on the upside, it's still not a great environment for owning assets, so you want to take profits when you can. If there's this headline surprise and you get an opportunity to get out of some of your exposure, and so that's the way I'm thinking about positioning.

Nick will be more explicit in his part, but that's what I'm thinking about in terms of my positioning.

Nick: I will be

Andy: more

Nick: explicit, but I absolutely agree with you. Upside is a sale. Extreme downside is a buy in everything, both bonds and equities. Thank you very much indeed. Speak to you next week.