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Nick: Hello, and we wanted to do a very quick update because not a lot happened last week, but some semi-interesting developments and something for you to think about over the course of the Easter holidays. Very little happened, as I said in the bond market and in the equity market. Bond yields fell slightly last week as we thought they would because they'd gone up far too much.

Equities really can't recover. They are. In a funk, rightly so. Volatility did come down, which helped the market stay slightly bid, but overall equities are really in a much worse position than even bonds at the moment. What was interesting to me was the little pact that we had between Powell and Trump.

Powell, quite rightly came out at in Chicago during his speech. He said that inflation is most likely to be a larger problem in the very short term than the growth outlook, and that is. Correct in our view. I'll let Andy speak for himself later on, of course. But I think that inflation is a bigger concern for the markets in the short term, and I think Powell is saying it like it is.

What does that mean for us? It just means that the calorie is not around the corner, just because growth is projected to be lower over the course of the next. Six months, let's say, does not mean that the Fed will automatically cut rates to compensate. It means that they will stand pat and look at the data and then decide whether the inflation is a bigger risk than the growth outlook that really angered Trump.

And he was talking about sacking Powell and things like that, which I, you know. Unlikely. It's terribly unlikely that will happen. But really a few words need to be said about why fed independence is so important and why any kind of move by the president to clip the independence of the Fed would be so disastrous for the markets.

And did you wanna kick us off on FE independence? Just a few seconds to let people know what we think?

Andy: Yeah, sure. So firstly, you don't need a fed, there doesn't have to be a Federal Reserve at all. And if you didn't have a federal Reserve, markets would set interest rates and banks would do what they do without, with modest regulation from people who can't really do their the job.

And they would. Set their own interest rates and create economic conditions that would potentially be more volatile and result in more volatility for the banks themselves, meaning more bank failures, et cetera. And you wouldn't have a damping mechanism that would provide, offset when the system it is shrinking.

Economy is weakening, inflation is falling and provide offset when the economy is going too well fed in. So you don't need a fed. I've written a lot about that. It's been, it's very helpful to have a fed because if they do their job well and don't over. Influence the economy. The economy operates on its own, but there's less risk to the system which results in businesses being able to plan much more effectively and capital being much more willing to be deployed into businesses, which lowers cost of capital, which allows for healthy growth.

On the other hand, if the Fed is activist and attempts to pump up the economy, that can create moral hazard where capital over invests because they ha are confident the Fed has their back. And so what you don't want is a Fed that's activist and what you do want is a Fed that is dampens extremes. Now what we have is up to anyone else's opinion.

I think it's a fed that is by and large trying to achieve their mandate and is humans who make mistakes, sometimes they make mistakes. What I. Others the president seems to want is a Fed that is beholden to his economic objectives. And let's be clear, the economic objective of the president of you of the United States is always for growth, employment, typically low inflation.

Something in which the Fed is activist trying to achieve that goal and. That creates tremendous risk in the system when they do that. And so an inde a, a fed that is dependent to the president is highly likely to pump up the economy and cause, and thus cause worse downsides when th they can't, when they can't effectively pump anymore.

And so President Trump seems to want that. And the outcome of such a. Policy is if it were to happen, if the Fed were all of a sudden not independent, would be the cost of capital, the risk of holding bonds in particular would go up significantly because the president would control that lever and the president would wanna pump.

And that would cause bond yields to rise. Now, stocks might temporarily like that, but bond prices would hate it.

Nick: Yeah, no, I absolutely agree. But the major risk in my view would be to the dollar. I think the US dollar would get absolutely killed, and we are talking about a 10 plus devaluation within hours, if not days.

You're talking about a yield curve, which would be extremely steep. As you said, bonds would hate it, and that is long duration. Bonds, very short duration. Bonds would probably love it. So you'd have a dichotomy where the very short end, let's say two years and under, is rallying like crazy because monetary policy will be loose.

I, what's the point of firing? The the governor of the all the governors or just the or just Powell. The point is to get lower rates now and so the very short end would love it. The very long end would absolutely hate it. You would get a yield curve, which would go from where it is now, a hundred and something basis points or even less to 500 basis points within days.

I disagree that equity prices would love it in the short term. They might have a very quick spike, but then they would absolutely get destroyed simply because the risk factor I. Overall, overall risk assets will have risen, volatility will have gone sky high. I think volatility would actually double or even triple.

It would be worse than the covid episode. And stocks would re-rate lower to a much lower multiple, just like China. Trades at a very low multiple. Why is that? Because fiscal policy and monetary policy are beholden to one man, and you would now have the United States in a very similar position. You would have the s and p trading at a 12, multiple, a 14, multiple.

Something like that, while at the same time you get the US dollar being absolutely destroyed as everyone takes their money home and basically says the US has become uninvestible. So you would get. A com. I, I then think of the volatility that would create in the markets. We just, we don't think this is going to happen.

I think the likelihood of this happening is less than 1%, but we just want you to be aware of what would happen and how volatile the markets would get. So if you see a headline per chance that this has happened. The odds are extremely low. We just wanted you to know what we think, and if you see a rally in equities as the first reaction, you just sell everything you have and some more.

So just wanted you to be aware of this. This is a little aside. A little bonus for you, and let's talk about more sensible things, IE what is likely to happen rather than what is not likely to happen next week. What do you think? Andy? Holiday shortened again?

Andy: Yeah. You guys are Europe is off. US is back on Monday.

Yeah, I just want to be clear when I said equities might rally, just briefly.

Nick: Yeah.

Andy: It's a disaster now. It's not gonna happen. On the other hand what is seems to be consistent is because of the things we've mentioned before, which is a fed that's on pause versus other central banks which are willing to continue to cut.

The. Tightening in financial conditions of now both lower equities and lower bond prices long-term bond prices and the policies of the Trump administration, which so far are anti-growth continues and thus constrict tightening fiscal policy is just not a good home for. For capital, there are countries, Japan, even China, but and Europe and the UK even, where rates are high enough and valuations are low enough relative to the United States, that and monetary policy is easier and fiscal policy in some cases is heavily expansionary that are better homes for capital.

And so. Capital is moving from the United States to these regions, and that is affecting the dollar and affecting equity markets and affecting the curve. So when I look at all those things, I don't see that changing in the near term. We can always get headlines on the and I expect we will see more headlines on both good and bad, on trade negotiations.

Over the course of the next 90 days, but we're gonna end at a place that is still has those general characteristics of just not as good a place to have capital as other countries after the end of, at the end of this game. And so to me, we continue to drift lower in equities, not crash drift, lower inequities as earnings come in.

If you might have noticed that recently, the. 2025 earnings expectation for the s and p has gone from median consensus of 270 to median consensus of 257 per share of the s and p. Now that's a four and a half percent decline in expected earnings. On top of that. And now, so now we have a new multiple on those earnings, which is actually.

Closer to 20. And so the multiple contraction we saw was followed by earnings estimate contraction. And we're just gonna continue that step down process until earnings represent a. Reasonable expectation in this new environment and multiples have contracted enough to make their value in equities. We think that's around 47 50.

And so we continue to drift down in equities and look to buy if we have a overreaction.

Nick: Yeah, absolutely no reason to chase anything. At the moment, a headline comes out, market goes up a percent or two. It's fine. It the, it's, there is absolutely no reason to be chasing risk markets in the us. Other markets, as you said, different story, they're trading much better than the us, especially in US dollar terms.

So that is where one should be deploying capital. Any new capital goes abroad and not in the US for the time being. That continues to be the story and. Next week will be much the same. More de-leveraging more repatriation flows. The US dollar stays weak, and that is to an extent ha helping us equities at the moment from going even further lower.

But that's about it. So we think our positions are about right, we don't need to change them, and we just want to wish you a very happy Easter. Spend it with your families.

Andy: Enjoy the Passover holiday as well. Happy Easter to all, including my Greek Easter, which is over overlapping regular Easter this year.

Absolutely. Bye-bye. Bye-bye.