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Nick: Hello. Good morning, and today is the 26th of April. Let's discuss what happened last week, Andy, because I was slightly surprised that equities rallied as much as they did the data. To be fair is still not showing what the soft data shows, which is that the economy is rolling over IE, that expectations for activity and therefore for earnings are much lower than the real data is showing and the real data still shows.

Absolutely. No sign of rolling over. We had durable goods, which were very, very strong. But that is mainly because demand is being pulled forward, IE inventories and being built up ahead of tariffs. And that really was to be expected. But even non the employment data continues strong. So there seems to be no sign that we are, having layoffs at the moment and the, the Doge federal worker layoffs are actually being absorbed very quickly by the real economy. So the hard data is really not supporting our. Argument that equities should really be weaker than they certainly close the week at. Let's discuss it. Andy, what do you think are the current what?

What is the market thinking currently? That we might be missing, because I think that it's always important to try and second guess yourself and see what the market is saying as opposed to what we think the market should be saying at the moment.

Andy: Sure. So, the way I look at it, straightforward last week was a week of happy talk on tariffs in which the administration attempt to walk back all four, and it started earlier.

Including with the incredible rally two weeks ago when they kicked the tariffs to a 90 day delay that we just continue to get happy, talk on tariffs about deals, about deals made, about conversations, had or not had. That happy talk is bullish equities. I if it's true. And I think what's happening is that equities are taking the tariff information that we're getting, which is.

It is what it is. It's been happy and extrapolating it to a destination that may or may not be accurate and how, what destination, it could be some, it could be being a, I'm sure it's being extrapolated by some players as being a complete walk back of the whole tariffs discussion. On the other hand, it could be a walk back to a level of tariffs that is anti-growth, but and large, but not as large as markets had expected.

And so not being extrapolated to the extreme, but if tariffs go away, that's bullish equities from at this versus this pricing. Now what's. Our view, our view is there's a need for revenue. A Trump 2.0 sort of agenda that is to reshape global trade and that that's not going away, and that this is mostly just a give the economy and markets a lot of bad news regarding tariffs.

Walk it back so that they, that short sellers get. Carried out and that longs get comfortable again for a period of time, give some relief, and then do it again, and just walk the market and the economy down to a place that is consistent with their long-term agenda. I.

Nick: I completely agree with you and what we need to ascertain really are the probabilities that tariffs will go away.

I just can't see a world in which you can rely on tariff revenue to fill up the budget deficit and not have tariffs. I can't see a word, a world in which you want to rebalance, trade with China and get them to consume more and produce less and not have tariffs. So unless they are going to walk back their ultimate economic aims after.

What, two months of trying to achieve them. It, it makes absolutely no sense to me that they are going to walk back the tariffs. I think the endpoint is going to be one in which we don't have 234% tariffs on China because that kills. All trade, and you can see actually that is happening if you look at something like the trucking index, which is now, which has fallen by something like 60% and made new lows on Friday, which basically means that there is zero tracking demand.

For trucks to transport goods out of ports and into the interior of the us that of course has to be walked back. There can be. There must be some trade and nobody ever expected there to be no trade. But what the, this market, I don't think is discounting correctly is that either margins are going to be much lower than they are now profit margins for companies because they absorb a lot of the O of the tariff.

Or activity is going to be lower and or choice for the US consumer is going to be lessened. All these things are indicate to me that equity prices should be probably considerably lower than they are currently and. Really, we, we really have to maintain our view that over time equity prices are going to continue to decline towards some reasonable multiple, which could be 18, could be 19, but certainly should be, shouldn't be in the twenties.

Would you agree with that?

Andy: And I think the key thing is we just dealt with what we think the tariff Happy Talk has done and the potential for it to be extrapolated to something that is highly unlikely. And that's causes an equity rally. But you also asked an interesting and important question, which is, what else could we be missing?

And I think there's a series of things that could be bullish equities and they start with policy. And we'll start with the Fed. It's possible that the Fed becomes extremely accommodative cuts rates extremely ends qt supports markets in whatever way they choose to do and that, and essentially abandons their inflation mandate.

That's bullish equities. I don't think anyone's expecting that though. There are quite aggressive expectations of fed cuts more so than the Fed is saying that they will do currently priced in, but it's already priced in, so it's already having its bullish impact. But they'd have to go further. Two, the deregulation is that the Trump administration plans is a real bullish thing, but there's been no news and no more information.

So some sort of. Large dereg, unexpected deregulation could happen. Three. The Trump administration has. One of their biggest anti-growth policies, tariffs are important, but their other big anti-growth policy is reducing expenditures, shrinking the size of the government footprint. They're doing it through discretionary cuts of waste and fraud from Doge.

And through the reconciliation bill that's going through Congress, which the house side has one and a half trillion dollars of, of expenditure cuts primarily to the poor in Medicaid food stamps and income assistance. They could reverse that. They could increase expenditures, not only just not cut, but increase expenditures.

That would be bullish equities. So maybe that's what people are expecting. And.

Those are the big things that could drive an equity rally fiscal policy easing significantly monetary policy, easing and deregulation. Of course, they could. Open the borders again, flooding workers in, I'm not even gonna mention that one. It's a possibility, but I don't think there's any chance of that.

And those are the four principle drivers of growth and thus equity, earnings and multiples already are high earnings have begun to come in, and guidance has been either modest or. Actually bifurcated where they consider an actual recession as one of their outcomes in terms of guidance. And the multiples are, approaching 22 again on a 12 month forward basis.

And earnings growth expectations remain elevated at around 11% year over year growth. So I don't think there's much room for equities, even if all those good things I mentioned happen. I don't think any of those are gonna happen either. Yeah.

Nick: The probability of them happening is extremely low.

That is just abandoning their whole platform for rebalancing this economy, and I think that the odds of that happening are, are as close to zero as it's not worth thinking about. Yeah.

Andy: One of the things that people. Our considering is the courts stop Trump in any number of ways, both in tariffs and in expended Doge related expenditure cuts.

The Senate, some deep state, state concept of federal workers plus the Senate doesn't allow for expenditure cuts. Whatever the reason they would have to stop these thing, the Trump agenda to justify equity prices at this level.

Nick: Right. Let alone for them to go higher. Yeah, absolutely. So, but they won't

Andy: go higher, and markets trade and so we had a big rally and we ended the, the week on Friday at the highs.

Yeah. And I'm sure there'll be animal spirits on Monday.

Nick: No. Absolutely. So what else happened this week? We had the bond auctions and they were very well bid. The, you can't say that foreigners did not show up for them or that there's any crisis in the bond market. The dollar and gold finished.

Quite unchanged on the week. So what we saw, the repatriation certainly has mellowed if not stopped. And therefore that wasn't a big factor last week in, volatility keeps on coming in trying to fill the gaps to the downside. And that is a positive for equity. And that's probably a technical reason why equity is rallied last week.

But otherwise. As I, as I keep on saying, until we see some real slowdown in the data, I think this is going to be a trading market up and down. And only when we see a real slowdown in real data will the Fed be able to cut aggressively. And I keep on saying that they will cut by fifties, if not 70 fives when that happens.

So we can forget about 20 fives. But until that happens, it's more or less, more of the same. Looking at next week, next week is going to be important, right? Andy? We got a lot of really good data, like Q1 GDP, and now we will find out whether it's actually very close to zero or not, and if Q1 is very close to zero, Q2 is very likely to be below it.

And then we have naturally the QRA and you are the world expert on the QRA. Give us your thoughts about what we could see on Monday and on Wednesday, because that could be terribly important for risk assets going forward.

Andy: Yeah, just before we jump into the QRA, the real data is pretty massive.

You've got, not only that, you've got PCE inflation data, you've got the NFP Yeah.

Nick: Pc. We

Andy: know it's a, it's a. Plenty of data. Yeah. But let's deal with the QRA. So on Monday at 3:00 PM there'll be an announcement on what the financing needs are for the US government for this quarter and for the forthcoming quarter.

Q, Q Q calendar, Q3. Those numbers are going to be all over the place, volatile and unpredictable because of the, debt ceiling. I would expect a much lower financing need estimate for the current quarter because of the spend down in the Treasury general account. And I would expect a much larger than one would normally expect financing need for Q3 because there'll be an expectation that the.

Treasury general account will be, have, have been refilled. So there's really no information from that. Often there is this time there isn't. What we will have is at eight 30 on Wednesday morning, we'll have the results of the treasury borrowing advisory committee and treasury meeting.

There'll be minutes, there'll be public, there'll be statements, there'll be. Coupon financing expectations, sorry. Schedules that will be recommended. Schedules that will be released, and the last few have been really nothing Burgers. Last, the first one that the, the, the best administration oversaw was in February, and they didn't change anything.

They were literally finding the bathrooms on the way to the meeting to, because they just moved in. And prior to that, Yellen was keeping auction sizes constant and projecting that auction sizes wouldn't change. In the February statement, they said we didn't, we don't expect auction sizes to change.

For many quarters. Now that's an authorized by Bestin statement, but I expect some change in that language that may not in substance and be in content, be any different. Keeping auction con sizes the same, but I expect them to have some. Imprint on the language, and so that'll have to be dissected.

Now, the things I'm looking at, there are three key elements to this QRA, well, four. One is the actual size of the auctions. They may keep them the same, they may change them. If they change them, they're going up and that's bad for bonds and bad for assets. If they don't change them, I'll be looking to the statement and the statement will has three moving parts.

Firstly, it. The amount of issuance over the next three, their projected issuance over not just the coming quarter, but all future quarters is very dependent on the expectations of the size of the budget deficit and path of interest rates. And so we may get some color on what the treasury thinks the budget deficit is going to be in that statement.

So that's one, two they are, they have a, the there's been a lot of conversations since Bessant spoke about it a couple of weeks ago when the bond market was essentially crashing, being sold by. Foreigners auctions, the three-year auction went badly. Panic was in the streets. Besson said, yeah, we'll, we could increase the buyback as one of the ways to intervene and make sure the bond market works.

And the buyback is buying off the run treasuries and financing them. He may increase the size of that or, or create a sort of, Hey, we will increase the size on a discretionary basis if things get bad. And all else being equal, that should be neutral to duration. Because what they should do, if they're really trying to buy back a liquid and issue similar duration on the run, that should be neutral.

But what they have done is when they've buy bought back bonds. They haven't increased the auction sizes, and by not increasing the auction sizes, that means the buyback is financed with bills. And so we'll be looking at that. Yeah. So the last one is the. Destination of coupons, are they interested? Are they, do they expect to reduce the amount of financing, which is roughly $2 trillion of excess bills that have been issued over the, during the Yellen administration?

Are they looking to term that out over time? And so we'll pay attention to the, that may not show up in the coupon announcements, but it may show up in the, in the in the language. Lastly, there's one super technical thing and that is the FOMC next week may tell us that they are abandoning, reinvesting in the long end of the treasury curve.

They have been throughout quantitative easing, they've been reinvesting any proceeds into long duration treasuries. They've told us they are rethinking that in the minutes of the January meeting, and it's possible that they announce a change in the reinvestment policy, which would. Require the treasury to respond to that change and how they respond could provide us information.

It's if there's a small possibility, 'cause the FOMC wouldn't have said anything yet that we get some information on that. So those are the major things and I think the way the market has responded, you look at 10 year and 30 year bonds, which are the things that should be roughly impacted by a change in the issuance schedule.

They're, they went to new highs in the la toward the last low yields, high prices over the course of last week. Last week was actually a pretty good. Weak for bonds, long-term bonds. And so at the same time the financing of bonds, which is what concerned and possibly even prompted the Trump pivot on tariffs, the financing of bonds has radically improved.

From very concerning to not particularly concerning. That may also be a reflection of expectations of a nothing event in the QRA. So we're set up for a nothing event and there's risk that we don't get that. And we'll respond to you and give you our feedback when we see the language on Wednesday.

Nick: No, absolutely.

I think this QRA could be quite significant, as you said. It's the first one that Besson can really influence and bring forward his his own plans as opposed to Janet Yellen's. I personally think that it's very low odds that they do anything simply because we are still in a period of turbulence.

And I think that with everything else going on, this is probably not the right time for him to introduce. Big changes, he can leave that for later on in the year. But if there are some changes absolutely correct. The the asset prices are going to respond in a big way because we are in a disequilibrium at the moment, and therefore we will contact you immediately and give you our thoughts and rejig the portfolio as necessary.

As you said, we have. All sorts of really important data. Apart from the QRA, we have the Jolts, we have the A DP employment GDP, of course, the PCE, which I expect to be a nothing burger because we know the components and we also have the BOJ meeting, which could be important, but. Probably not the right time for them to do anything either while these tariff talks are in progress.

And then finally, we have jobless claims. And the NFP, I think it's probably still early for the NFP to. Reflect any weakness in employment, but you never know. Weekly claims have been steady as a rock. So I then see why that should be. Now, when do you think, and my own thoughts are that if we are going to see some real weakness in economic data, it's going to be late May, early June.

That is when the data will filter through. Do you have any different opinion as to that? Well,

Andy: let's just talk about what we have gotten. We're getting data in April. We've been getting data in April, but that data is about March. Yeah. And so. Any data we're getting is about March. So what's happened since the beginning of March is a significant change in both tariff rhetoric and the market price, people's wealth, et cetera, the currency.

And as you mentioned, essentially we have a trade in Bargo going on in April. So when do we get April data? We get data in May. By when do we get May data? We get May data in June, so somewhere in May and June would be my view that we're seeing a slowdown. And so the Fed isn't gonna cut next week but maybe they start to see some slowdown data come the June meeting, and that could be more interesting.

Nick: Yeah, so really we can't do anything else but remain with our stance that we are very weary of the levels of equities, and certainly we will maintain that unless the QRA changes our opinion about the value of assets, which is terribly unlikely as we've been saying. Or we see some data that tells us that we've gotta get out of US equities completely, and that is terribly unlikely to happen until late May, mid-May to early June.

So if that is the situation, there's not a lot we should be doing. Is there end.

Andy: Yep. Absolutely. There, as I said, we said there's a series of things that could happen that could make us bullish equities. The odds of them happening are low, but if they are happening, we'll adjust. But the odds are very low at this stage.

Nick: Excellent. And we'll send you our thoughts immediately after the QRA via the website. Thank you very much indeed.