

## 2 Gray Beards Week 126

**Nick:** Hello. Today is May the 31st, nearly into June, and the half the first half of the year will be over. What is going on, Andy? We have a market which really doesn't know which way to go and which way to take all assets. It's really a headlines driven market by Trump. He postpones tariffs. The market rallies like crazy.

He reintroduces the market goes back down. We get some data. The market more or less ignores it, but let's try to put things in order as to what happened last week?

**Andy:** Yeah, so last week last time we spoke with you all Trump had declared a 50% tariff on the EU because he was very mad at them. And the market had sold off.

Fairly sharply on Friday afternoon. After the close, this happened, after the stock market had closed that he imposed this 50% tariff. And by Tuesday morning, Memorial Day, soon after, actually sometime this over the weekend, Trump said, eh, we've decided to wait until applying that to July. 10th or whatever it was, maybe it's 11th, and a new acronym was formed.

It's called Taco Trump. Always chickens out And the market loved it. The market rallied heavily on, on Tuesday and then into Wednesday, the market gave back some of that rally. But Wednesday night after the close, Nvidia reported earnings that were quite strong demand for in within, in line with expectations with a little bit of a beat.

But I. Strong demand for their product, which should surprise no one. Frankly. And perhaps more importantly, at least at the time, was that the courts that the trade court, the that oversees the president's tariff regime and is, was dealing with a case from importers or exporters. I'm not sure who was the other, the plaintiff, but, trump lost and the tariffs were declared illegal by this court, and the market went parabolic overnight. Nasdaq was up five, 600 points after being already up when he walked back the European tariff. And Nvidia rallied, eight points from 1 35 to 1 41, 9 points to 1 44, and it was just a absolute.

Parabolic move in markets and all that reversed on Thursday. We got jobless claims, which started tilting up, which is, the, probably the only real relevant data lately where you can actually see the impact of a slowing economy and the

market. Fell back down. And really when you look at the stock market for the last year, let's see, we closed the year last year at 58, 81 on the s and p, and we're at 59 11 on the s and p, which is a 50 basis point.

Increase. So cash has massively outperformed equities. And so here we are with a market that sucked up the short dated auctions that were done. \$82 billion of auctions were auctioned. That went fine. And the PCE came in as expected with a 2.1% core, which is right at Target. And that's pretty much the picture, which is tariffs are.

Going to remain an uncertainty. They were al, they've always been an uncertainty. There was extreme extrapolation when the, when liberation day happened, and then extreme relief when the terrorists were pushed to June to July and now we have. And so there was always great uncertainty. Now we have a certainty.

That Tar Tariff policy will be uncertain for an extended period of time as the Trump administration deals with the courts and possibly alternative ways to tariff, which they did late Friday night. I. By increasing tar tariffs on steel and aluminum by double 50%. So those headlines are just gonna buffet us.

And what it really comes down to is what will is less so what the tariffs will be, but what the outlook for the economy is. And Nick, you've had the view that I share that we're coming onto an important period of time.

**Nick:** Yeah. Now. Putting all together what you've said, if I was the CEO of a major US corporation, the fact that I have absolutely no idea what the timeframe is, or if these tariffs are gonna be in place, they're not going to be in place.

This actually increases my uncertainty and increases my resolve to do absolutely nothing until I have certainty. And in the meantime, the employment market as we saw in the weekly claims data, which came out at eight 30 on Wednesday. Then. Preceded preceded the opening of the market and the market just fell in a straight line.

Almost a hundred points tells me that this uncertainty is increasing for the CEOs and therefore they're going to do absolutely no hiring whatsoever in the next month or so. And we've been consistently saying that the window. Of opportunity for weakness for the economy via employment is. The second half of May into June.

So we are in that window. It makes no sense to me to bet on higher equity prices. Whatever Trump headlines, he changes his mind. Every two minutes, he imposes tariffs, then extends them, then does this, does that. I think that increases the uncertainty of all the market participants and therefore it actually enables this window of weakness to be more open rather than less open.

In which case. With equities as fully priced as they are, the danger is all to the downside, in my view. If we have a look at the way the market responded on Thursday, it had every opportunity to remain high, but it gave up all its gains, and that tells me that the big money is aware that equities are A fully priced, and B, that the dangers at the moment.

For the next month or so are to the downside. So that is my firm view and I'm not gonna change it until the data changes it for me.

**Andy:** Yeah, in terms of just Nvidia for instance, which is the poster child for ai and. Certainly with all of the other things that have been happening with other companies and whether they're spending and can they get revenue from their AI inventions, the picks and shovels are still the poster child for ai and Nvidia couldn't hold a rally.

**Nick:** So that's basically it. And as you said, the bond auctions went very well, which to me says that in a time of high uncertainty, the short end is the place that people are going to buy. They're certainly not going to be reticent to buy it. The yield curve did really not a lot long Bonds did slightly better, but really grudgingly.

So nobody is buying duration handover fists. They don't feel that yet. That is the time and real rates are remaining high. So the equity market has got this higher uncertainty and higher real rates. They're not particularly high, but they're neither low, nor are they. So high that you'd want to buy them, and therefore I think that we are correctly positioned.

We should be waiting out this period of uncertainty, and as soon as we get the certainty, then we can reposition. But at the moment, I see absolutely no reason to do anything at all. And in fact, next week. We have an important test. We have NFP, which I think has a real opportunity to be quite a bit weaker than the market expects.

And if that is the case, then we will be starting again. A new narrative about how the economy really is weakening, but that is for next week, and we'll, we will see otherwise. Apart from that, we have very little, we have pmmi, which

are probably going to be hot because the economy has been doing quite well, and this is looking backwards, but.

No more than that. The weekly claims and the NFP are going to be the litmus test next week to see if this window of opportunity for weakness really is opening wide or not.

**Andy:** Yeah, I agree. We also have, so as it relates to the survey data, like the PMI, you're gonna see that improve relative to where it's been because tariffs have been delayed and.

Equity markets which drive a lot of the sentiment within the surveys are robust, so you're gonna see that data be hot. I don't know how the employment data will play out. The direction that Nick suggests is consistent with mine, which is you're gonna start seeing some weakness in the jobs data as a combination of uncertainty and stagnation as it relates to what to do.

The result of that uncertainty is gonna start weighing on hiring, but we also have the ECB. They're likely to cut. And the question is for the EC. B is will they then guide to further cuts, which is what their history has been lately or. Guide to, we may be done. And our sense is that they're gonna lean toward the latter and that may have some sort of positive impact on Euro relative to the dollar.

So we'll see how that plays out. The themes that we're generally thinking about are really unchanged and we would like to see the data for the next. Six weeks or so to confirm or reject our thesis.

**Nick:** Yes, and that's the high level point. Now, this is not the time to do anything much, but wait for the data and see how it develops.

I think that's really all one can say about this market because it's so headline driven by Trump. It's getting quite annoying.

**Andy:** Yeah, unless you bought the bottom, sold, weren't invested, sold or sold, and then bought the bottom and rode equities up while also avoiding the long-term bond market.

These portfolios are not making much money this year, so cash is a pretty good thing. We don't see the market taking off without significant changes, and we're gonna play it by ear. Absolutely. Speak to you next week, Andy. Bye-bye. You next week? Okay, good.