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**Nick:** Good morning, and today is the 7th of June. We had some pretty interesting employment numbers last week and they really dominated the trading. So Andy, it looks to me like employment or rather unemployment is slowly rising, but it's not enough to make the market think that we are about to go into anything but slower growth.

What's your take about the numbers that we had last week?

**Andy:** Yeah, so I think the problem with data is it always is in the eye of the beholder, and so we've been saying for a number of weeks now that we expect to slow down in the, in this window between this employment number and the next one, maybe even a few numbers after in early July.

The market won't necessarily see those things, and you have to worry whether you're thinking about this in a biased way or not. We look at it and think fairly objectively and triangulate with many smart people out there about what's happening in the labor market and in the economy generally. And we look at the economic conditions, the.

Fiscal, the monetary global to come to a, an idea of what it has. And then we use the numbers, the data as a check to that. And what I would say is it's going pretty much like we expected. The economy is weakening. The data this week confirmed weakness in the labor market. The markets didn't particularly care.

Equity markets rallied a percent and a half. Bond markets took out some of the. Expected cuts in the Fed path, which caused bond markets to sell off, partly due to potentially the auctions next week. So it came, when you look at it, you say the market said it's actually, they're pretty good numbers.

They're not weakening. So the question becomes, when does the market. Become aware of the weakening in the economy then they haven't yet, but our view is that the economy is beginning to weaken.

**Nick:** Yeah, no, certainly I've analyzed the numbers in every which way, and it does seem that the unemployment rate is slowly rising.

What seems to also be happening is that there is some substitution going on. A immigrant labor is leaving the labor force. I'm probably leaving the country

while. It's being replaced by substituted, as it were by US citizens. And that gives us a slowing down of the deterioration in the labor market, but it also gives us some higher wage levels because the American workers are demanding higher work wages than their immigrant counterparts, and that is strengthening the.

Wage numbers, but overall there is absolutely no doubt that the labor market is slowing different rates in different parts of the country. But overall, the labor market is slowing, which at best makes equities go sideways. Really becomes, I would say, a spread market. So certain parts of the economy, like ai, like defense can do well while the rest of the market just languishes around and does not very much indeed.

And really that is what we are seeing at the moment. We are seeing certain parts of the economy doing. Very well, and others just languishing around and not doing very much at all. So what is to be done about that? What do you think, Andy? What is the best strategy for something like this? This period that we are going through, which could produce a substantial change, but probably will take longer than expected for everyone to be able to sit.

Cash is paying four point a quarter percent, four 30,

**Andy:** and real rates are high and real rates are long-term. Real rates are what? 30 years at two sim, 2 67. I don't see any problem with waiting some more. If we're proven wrong and the data starts to to improve, we're gonna have missed a few percent in in equities.

So be it, we'll have made a few percent in cash maybe, and we'll, we'll underperform in that case. But, I look at the last this year and see that. Cash has outperformed any asset portfolio that didn't include gold or crypto just outperformed and you had a 20% drawdown. If you were in a 60 40 portfolio, sorry, in an equity long only portfolio and.

A pretty heavy drawdown, even if you were in something more diversified. So you have all the risk of assets with, so far, none of the return. And I think that's what continues. I'm sure the market could rally a few percent, probably not with bonds rallying. Sure the market could fall a few percent with bonds rallying a little bit, but asset portfolios just don't look good to me relative to cash.

And so I'd like to stay relatively light in my allocation.

**Nick:** I completely agree. Buying now when we are within that window of potential weakness doesn't make a lot of sense. What do we have next week, which could change the situation? We have only CPI and PPI and those are unlikely to be terribly strong.

But on top of that, we have threes, tens, and thirties. And duration has been a pig to hold, hasn't it? Andy? Every time you think it might be time to hold duration, it slaps you straight back in, back down. Yeah. So it seems that we are, in a situation that unless you are very bullish for 30 year bonds, you stay allocated exactly where we are.

And that is clipping a coupon of 7% on VWOB and somewhere near 5% on the corporate side. Staying short, 2, 3, 4 years. That seems to be the only place where you can be at the moment without taking an inordinate amount of risk, because as we've said several times, while I keep on saying that real rates are high.

They're not really extraordinarily high, and they're certainly not low. So really for us to shift into real rates away from everything else, we need another 20, 30, 40 basis points. I think 40 basis points will actually kill this economy, let's call it 20, 30 basis points, and we are not there yet. So we are not a buyer of duration, are we, Andy?

**Andy:** I don't see it, the only thing that is happening, and I'll have some comments in my own reports soon and we'll mention them here, there is the non-US central banks and fiscal authorities are. Beginning to be nervous about the long end. They are acting, they are tweaking their issuance.

They are two to less duration versus more. They're two tweaking their reinvestment policies at the central banks for q their balance sheet to buying more long end and Bo versus. Versus what they had been versus less. And the fiscal and monetary agents are worried about the long end, and that makes me worried about the long end.

**Nick:** And that is really what the SPAC between Trump and Elon Musk was about. When you peel away all the layers, it's about the size of the deficit and how to fund that deficit and. Is there a danger that they lose the bond market because of the deficits.

**Andy:** In a world in which bonds just don't off listen, the bond markets are gonna clear.

They're gonna clear the price. It's just what? The price. Yeah. And so I think the price is gonna be better for investors in the future than it is today, given the. Dynamics of the deficits and the debt, and this is not just in the US but globally. And so I'm no friend to duration. I recognize that the monetary and fiscal policy makers are nervous about it, and that makes me less, more nervous, not less nervous.

**Nick:** Yeah, no, I completely agree with you. So really not very much to do. Maybe tweak around our equity positions with some of these sectors that I mentioned, but overall upping significantly equity allocations here or extending duration seems to make absolutely no sense grid. Excellent. Thank you very much indeed, Andy.

And I'll see you next week.

**Andy:** See ya.

