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Nick: Hello, and today is June the 14th. We had a pretty interesting week data wise, macro data wise, which in the end got dominated by geopolitical factors. So let's go in order. First of all, the employment situation is very slowly deteriorating, but the pace of deterioration is just not fast enough to really bother equities.

Currently, we've been saying that we are in this window of weakness and we continue to be in this window of weakness. We will see what next week brings the big data. Otherwise, this week was CPI and PPI. And both of those prints were slightly weaker, which should really encourage the FOMC this week to remain at two cuts for 2025.

We think that's pretty much written in stone at the moment, unless something really, unpredictable happens over the course of the next few days on the geopolitics side, and then of course we had the little spat between Israel and Iran, which is ongoing. I. We have no idea how that's going to resolve.

Naturally, all we can say is that normally when wars happen, long duration doesn't like it because they're inflationary and they tend to spike the price of energy as is happening at the moment. But equities. After the initial weakness, they recover. That's all we can say for the time being, and we'll definitely send you updates if we think that anything important is happening that we should be acting on.

Otherwise. That's about it. Andy, what did you take away from last week? The bond auctions, which I didn't mention went superbly, but the market still ended up in the long duration part below the auction levels because. Long duration is just not something to own at the moment.

Andy: Yeah, there is this idea that has happened since Trump turned more constructive on his policies from delaying tariffs to even recently.

Making some comments that certain illegal immigrants may be allowed to stay pretty much reversing all of his or original policy rhetoric deficits will stay high. And so that's encouraged. Some run it hot thinking both from market participants and in market pricing. And so we have this run it.

Dilemma, which is keeping a lid on bond prices, keeping yields relatively elevated, including what the Fed is doing. So there's no really pricing in the bond market for a slowdown of any meaningful amount, despite what was clearly pretty tame inflation data. Why is the inflation data. Tame, that's a little bit in the weeds, but there are certainly possibilities that inflation will heat up, particularly given what we've seen in oil prices lately.

The bond market remains at relatively high yields GI expecting a run it hot type economy. Equities are priced for, strong economic outcomes, and so the markets are not really pricing much into the. Idea that we're in the midst of a period of weakness and data slowing down, showing a decelerating in the economy.

The markets just aren't price for, although the

Nick: data is definitely showing it, the employment data is beginning to become worrisome.

Andy: Yeah, this is what we've been looking for and the proving to be in the midst of a slowdown and we think it still should. Now, of course the geo-politics issue is relevant.

It both is causing the inflationary and anti-growth aspect of energy prices rising. Those are a double whammy for the economy and that it slows growth because people's consumption basket now has to pay for a necessity, which is energy and can't afford discretionary as much. And it raises the levels of headline inflation.

So you know, it's a sort of a double whammy, but the Fed is basically on pause for reasons unrelated to the geopolitics and frankly unrelated to the data we still have a fair amount of policy uncertainty. There, there is no budget. There is no reconciliation. OBB one beautiful, big, beautiful bill that has passed.

It is what's going through Congress is relatively run it hot but not run it super hot. It still is. It's not increasing the deficit, it's just not decreasing it as rapidly as Trump claimed in earlier rounds of his presidency so far. And that hasn't landed yet and is yet, and there is still fairly high uncertainty on where it will land because they just don't have the votes to pass it.

And so there is a deadline and that deadline is sometime late August when the Mon country runs out of money. We may go that long, so that uncertainty certainly isn't gonna get resolved by Wednesday. When the FOMC meets secondarily tariffs, there are no deals. There are rumors of deals, there are frameworks of deals, there are alleged agreements.

There is. No resolution on the legal aspect of any of this stuff, whether it actually has to pass Congress or can be implemented by the President, so there's just no certainty on the finality of tariffs. There's a. Purported deadline, which happens in early July that's coming up in which the president ends the delay for implementing tariffs.

And he said he is gonna just send out the tariff numbers if there are no deals by then. So you know, that's uncertainty and once again, will not be resolved by Wednesday when the FOMC meets. And lastly, let me just mention my view on the. I think it's our view on the political the geopolitical Iran Israel situation, briefly, the United States playing good cop and staying out of the skirmish.

And Israel playing bad cop and. Aggressively targeting nuclear facilities. And the regime itself really have one, two goals. One is a must have, and that's the complete elimination of the. Iranian capability nuclear weapon re capabilities, and the potential to build future nuclear weapon capabilities.

They, that, that's gotta go. There's no deal, there's no end until that is resolved. Now how it's resolved and will there be wiggle room? I, that's a different issue, but that has to be on the table. Must have, and then there's a nice to have, which would be a regime change into a more friendly regime. To the to the west.

That's a nice to have. But right now the pressure is on and the only decision will be whether Iran decides to come to the table for the one for, with the current regime to achieve the must have goal or with the next regime to achieve the must have goal. And so that pressure could pop through.

Sunday evening when the future's open and we can't do anything about it. And if they come to the table and resolve, stock market's gonna rally and oil's gonna fall. But in the event that does not happen by Sunday, chances are the selloff in equities, the selloff in long-term bonds, the rally in oil, the rally in gold are going to continue.

And for us, who is underinvested? Below our comfort level in equities. Any meaningful dip, maybe below 5,900 on the s and p, which is not that far away, would be worth at least getting back to neutral. And so that's where we're heading as it relates to conflicts. And maybe we have that opportunity this week.

Nick: Yeah. Now, as far as next week in terms of data, we'd have retail sales, which could show further slow down. And again, weekly claims. Weekly claims are very close to making new highs since the COVID recovery, they've never been above 265,000 and, but they're getting uncomfortably close. So should we get a a number, a weekly number above 265, I think a lot of.

A lot more people will start paying attention to what the data is saying and that there is a slowdown in employment and that hopefully will reflect in a equity pricing, but also in how the Fed perceives when they can start cutting. As far as next week is concerned though two cuts for 2025. I think we will both agree is written in stone.

They're not going to change their dot plots at all for all the reasons that you mentioned. The uncertainty is still extremely high. There is an outside chance that they could slightly lower the dot plots for 2026 overall by one extra cut, but I think it's very low odds. That would be a dovey surprise, and all it would do in the absence of a resolution to the geopolitics is just steepen the curve further, and that really shouldn't help equities very much at all.

In fact, it, equities don't really the fed cutting because they think the economy is going, south, so that really should not impact equities at all. If anything happens outside of the probabilities that we've just given you for the FMC, naturally we'll send you an immediate update.

But our plan is to slowly on this weakness, get back to neutral in terms of equity allocations. That's all we can do, Andy, right? I mean there's, I really don't see any other alternative to this kind of game plan.

Andy: Bonds are still no touch right here. We wouldn't want to add to long-term bonds.

Clearly, if the slowdown does start manifesting, it's gonna, we're going to want to own more short-term bonds potentially, but long duration still doesn't show much interest to us. The only thing that I would say as it relates to the FOMC, listen we're paying attention to all the various potential outcomes.

The BOJ speaks as well. We'll let you know if there's anything meaningful. But just as a heads up we're at the time that five years ago when the Fed initiated its five year review, when details of the five year review come out. It's the summertime after they initiate. In this case, they initiated that in January.

And it's the summertime where that detail starts to come out. Things we're looking for, things they've already hinted about is the way they adjust the inflation averaging target. They've been pretty clear. What they want to do is make the target more solid, not change it, and. Make the averaging idea, maybe take it away completely and just have a single target.

But we'll see on we it's possible we'll see on that. It's possible we'll see on some sort of bank deregulation if that fits in, though that hasn't been part of the review in the past. Lastly it's, they have teed up the idea that they're going to change their reinvestment policy. It's due to be discussed if it gets dis, if it gets changed.

We'll hear about it in the statement at two o'clock on Wednesday if it gets talked about. Only if a smart. And they probably won't. Smart reporter asks about that, will Powell mention it? Otherwise it'll be in the minutes or not at all. And so we're paying attention to that. It's a small but important thing because it would have an impact if it were to be changed to what we think it's gonna be changed to would have an impact on long-term bond yields rising, which may have some market impact certainly on bonds.

So we'll be paying attention to that and mention it if it makes, if it if we see anything like that.

Nick: Great. I'll now go through the portfolio and the levels that we plan to add to equities and other plans that we might have. And otherwise, we'll send you an email if anything significant comes out of the FMC.

Have a great weekend. Have a great weekend, everyone.