

## 2 Gray Beards Week 129

**Nick:** Hello, and we're recording this on Friday as opposed to on the normal time on Saturday. Let's talk about the Fed and what the Fed did and our expectations and so versus our expectations. We got it right that they maintained the two cuts for 2025, but they took out one cut for 2026 and one cut for 2027, which was.

On the cusp. So they obviously think that the the easing process is going to be gradual. And also they must think that. There are some, there is some danger of a slowdown because otherwise they wouldn't have maintained the two cuts for 2025 and we are running out of time really. And what they did in terms of GDP projections is rather surprising because they lowered GDP by 0.3.

They upped unemployment by one by point. Sorry. They upped the PCE by 0.3 as well and the unemployment rate by 0.1. So they're obviously seeing some, how should we put it, Andy? Is it stagflation or is it just an abundance of caution? On the part of the Fed Governors, because they were at pains, or at least Powell was during the press conference, was at pains to say that they had to write something, but their confidence in those projections, in their dot plots and their expectations is very low.

Much lower than normal. And certainly he repeated everything he said last time, that these dark plots have to be taken with a pinch of salt. So what do you think is going on in their minds at the moment?

**Andy:** Yeah, the takeaway I had, so you, the full on exactly what happened, the takeaway that I had from the press conference was, it seemed very clear that at least Powell and certainly by the dot plot, the committee. And, we'll, I think we should probably mention Governor Waller. He spoke today later, but just focusing on the Fed. And the committee, they were, they really think inflation is coming. Like, we've had some pretty tame prints including last week's prints.

Regarding the inflation data, there's some seasonality to that. You can't really trust all the data given what's been going on with tariffs, but they, BA Powell reiterated a number of times that inflation is coming and they've shown it in their dot plot. Now will it come? That's the big question for markets and the big question for the Fed.

I think they are clear that they think there's a slowdown coming. So basically they'll cut if there is a slowdown that is steeper than the one they are projecting, whether inflation goes, comes through as expected or not, and they'll certainly cut probably more aggressively if. The economy slows and they don't see the inflation that they were very confident that they are going to see.

**Nick:** Yeah, no I absolutely agree. I get the same impression and that they are more willing to sacrifice the inflation mandate currently than the employment mandate as soon as they see an excuse from the weekly claims data or some other piece of employment data that comes out, especially weak. They're going to be, as Wallace said and you said we should mention him today, he said that, he can see a July cut, July is on the table as far as he is concerned.

And the only thing that would make July on the table is a very weak employment number coming up in the first week of July or some weekly claims data we've been mentioning the weekly claims. For a long time, and this is the window of weakness, I think next week or the week after, if we see a new high in claims data, something above 265,000, the curve is going to steepen.

And, the cuts will start being penciled in by the market for July or the the meeting after, which is in September. So those will go to very high probability of cuts.

**Andy:** Yeah, they, that's what we've been saying. We think there's a slowdown coming. We think there's going to be likely more cuts than I, I at least think there's gonna be more cuts than priced, which is currently two, which is exactly what they've told us is going to happen.

But I also think there's probably something to the idea that we're gonna get a burst of inflation. And so that continues to, because that inflation is likely transitory. But if it's not, people are going to be concerned regarding the long end. So it continues to be despite. Our view that the markets, the economy is gonna slow down.

It could be happening in this, it's not stagflation, but in a way in which inflation is higher than desired, and growth is lower than desired. And in that case, we suspect they'll cut, but it won't be good for the long end and probably won't be great for equities.

**Nick:** Yeah, no, but it should be quite good for hard assets.

So we really have to start looking at gold. We have to start looking at Bitcoin. We have to start looking at commodities. Those should do relatively well in that environment, and we certainly shouldn't extend our duration should we, because we are exactly where we need to be. We will benefit from the cuts and we won't get hurt if the backend starts shouting inflation or it starts saying the Fed doesn't care about inflation, which is even worse, right?

'cause that would really steepen the curve. You get a double whammy. So I think we are probably in the right place. I don't think next week is really gonna change our minds. Is it Andy?

**Andy:** We have the data is we have survey data. Yeah, we have a bunch of housing data. We have Powell talking. Gosh, it, he's gonna be in front of the Senate and the house, and that's always a circus, but we'll pay attention in case he makes news.

It doesn't look like he's going to make news. He had his opportunity to tell everything he want. Could possibly have wanted to tell. We might get some bank regulation questions because the congressman loved to talk about that. So maybe some details on that, but probably a non newsworthy week. And there are \$180 billion worth of twos, fives, and sevens coming during the week.

So. Plans are, that's gonna go brilliantly.

**Nick:** I think the market likes that end of the curve and likes a little bit of duration in the fives. So I think that twos, fives, twos and fives will go pretty damn well. I'm sure the sevens, who knows? But it's not gonna be a disaster in any case. So I wouldn't have thought those are going to really impact the market.

But as you say, it's still a headline driven market inequities. Trump says one thing about the Iran war, and we go down 50 points, he says another thing and we go up 50 points. So it's very difficult to predict what equities are going to do next week, simply because there isn't any data and it's not something that we really need to chase at the moment.

**Andy:** Right? Five months, five weeks. Now the market is unchanged.

**Nick:** Yeah, absolutely. Five weeks going sideways. And I think it's much more of a sector market or a stock pickers market. You are still the the stocks that, the lit little sectors that we've added to like defense and the XLI. Are holding very well.

Even when the s and p goes down, they don't really follow it or they bounce more than the s and p when the s and p bounces. So I think that we are positioned pretty well for the time being and we really don't need to chase anything, do we? No.

**Andy:** It's a good time to be in cash.

**Nick:** Yeah, it is a good time to clip that coupon and and why not?

And really that's all we have. That isn't it Andy? There's not a lot more than we are going to be able to add in this episode. Yeah, this is a short one. Have a good weekend, everyone. Have a great week.

