2 Gray Beards Week 130

Hey there. Welcome to two Gray Beards today there's only one gray beard as Nick is on vacation, so you'll have to bear with just me. I'm recording this on Friday June 27th, and it's been quite a seven day period in markets. I think you have to just appreciate how amazing this week has been.

Last time we spoke the United States was back and forth on whether they were gonna bomb Iran. They did and appeared to have achieved their objective. While that's never gonna be clear the war seems to have been in ceasefire now. How long that'll last is another question, but for now the market's greeted that quite positively the market rallied strongly and continued to rally So I think it's probably useful to take you through all of the things that happened last week because it was a big week. So again, we entered a war in Iran and seemed to have ended it.

Importantly policymakers, the two most influential Republican appointed. Fed Governors Chris Waller, who is clearly on the short list for replacing Chairman Powell. And Mickey Bowman, who has been, who's now the vice chair of supervision position that po. Trump recently appointed her to which is a very influential position regarding bank regulation and oversight.

She has been fairly hawkish and she switched to suggesting as did Waller, despite what had happened the prior week regarding the Fed meeting where consensus was clear that they were not going to cut any time soon because of the risk of tariff led inflation being sticky.

We've been hearing from the president that he very much wants rates lower and that Powell is dumb. They said, we could see cutting in the next meeting in July, which was a bit of a surprise to markets. There was very low probability. Now, there still is pretty low probability in July because the rest of the committee and Chairman Powell are still unsure about the path of inflation and frankly, the tariffs have not landed yet.

Aren't really impacting the data though we start, are starting to see some small impact on tariffs both on the inflation side for goods inflation and on the growth side due to demand hit because of more expensive goods. It was a surprise that these two influential governors are at least open to a cut in July.

I don't think that'll happen, Nick, but the cutting phase is going to happen if inflation is not,

Due to the tariffs. Chairman Powell then testified soon after that on the 24th and 25th in his semi-annual appearance with the House and the Senate, and said he himself and the committee were still nervous about whether inflation was going to come into the United States.

Of the tariffs and how big that was and who was gonna eat it. If corporations eat it, their margins are gonna shrink. And that's not great for equities if the consumer eats it. The Fed also announced easing one of their regulations for banks called the supplemental leverage ratio.

They're going to make that ratio lower so that banks canparticipate more in intermediating treasury bonds. With this new change, it shouldn't have a meaningful impact today. Trump Castigated Powell and threatened but also added that he is considering financing the government more with short term debt, which is whatsecretary of Treasury, Besant told us, he was against and thought Yellen was using inappropriately to stimulate the economy. we'll see how that goes. Today negotiations with Canada over the trade deal.

Were broke off completely. when will there be a deal, who knows? But right now it's broken off and the market handled that fairly well. It sold off a little bit, but came back by the end of the day. The trade deadline in general seemed to be extended for anyone who is willing to be playing ball and actively negotiating.

And so that's gonna delay certainty on tariffs and perhaps what the deals A claim that a China deal was made doesn't seem to be quite the deal everyone thinks, It did show the Chinese are going in the right direction, or at least the administration's happy with how they're going.

We got a fair amount of information on beautiful bill. It's yet to pass, but it looks like it will have even less deficit reduction The house left it which is, stimulative bad for bonds, good for stocks. They're optimistic that it'll happen by July 4th. We'll see, Data continues to slow. personal spending data today was weak. Not very weak, but consistent with our view that demand and labor is starting to weaken. certain prices are doing different things.

housing prices are falling which is good for people looking for houses, but not necessarily for the wealth effect. Perhaps the housing market will become more robust if houses become affordable, which is good for the economy. Inflation data for consumer prices and the important PCE came in a little hot today.

what is worth noticing is that goods inflation, which has been a very strong disinflationary force while services inflations has been hot, is no longer disinflationary and is starting to tilt up. And that's consistent with tariffs. 'cause tariffs are on. Goods. Now in terms of the week, equities recovered from their pre-war selloff and rallied throughout the week, ending at all time highs in both the s and p and the nasdaq.

Very strong equity performance. The dollar fell sharply ending near its lows. the short end of the yield curve, which is where most of our exposure rallied, most outperforming the long end. But the long end also rallied. That's what we call a bear steep, a bull steeper. And what it says is that expectations that the fed's gonna cut more aggressively and ease, which supports equities and makes sense why equities rallied.

Bitcoin and Gold did very little. All this happened in seven days, so it was quite consequential. we also successfully sold $182 billion more of debt in the twos, fives and sevens auctions for the week.

Next week is shorter. We have the July 4th holiday. And we'll see, we have some data.

So next week we're gonna have survey data and then labor data, which is really important by July 3rdbefore the July 4th weekend, it's gonna be a really important number for the economy and the bond market, which could start pricing in. less or more cuts depending on how hot that number comes. So that's the big thing to look at for the week.

we're still expecting the slowdown in that data and that's keeping us from. Adding to our equity position and keeping us very happy in our bond position Gold came in. Hopefully that'll allow us to buy some more gold if it comes in.

Are they going to cut into this very strong? Is growth gonna remain strong? Is inflation gonna stay fairly warm? Yet the central bank, whether pushed by the Trump administration or on their own, starts cutting. we'll be paying a lot of attention to that. That could cause a melt up in equity and other risky assets while hurting long-term bonds.

That's where our head is at, and next week Nick will be back. Talk soon.