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Nick: Hello everyone. Today is the 23rd of August, exciting week with the Jackson Hole speech from our friend Jay Powell, which was definitely slightly more, how should we put it, Andy? Dovish. Dovish is a good word than expected. Certainly expected by us, but also by the market. Shall we go into what this speech was?

I certainly don't think that this speech is any kind of abandonment of the Fed's inflation target, which is 2% in the medium term, and it's not any kind of admission that they are going to ignore inflation going forward and that they are going to prioritize.

Employment and therefore that it's an inflationary speech, and that one should go into debasement kind of portfolio allocation. What I think he is talking about is something that we've been mentioning for a while and that is that we are in a very funny employment situation. We've been talking about a window of weakness that would've opened in June, strobe July and would be continuing now in the employment situation.

But we are faced with. A, how should we put it? Both supply of labor and demand of labor being lower than we thought they would be, or certainly something which is anomalous and we have not seen in the past. So the demand for labor is certainly lower than it was indicating. Maybe that we are going into a little bit of less growth, but also the supply of labor is at the moment constrained, whether it's through the migration policy or whatever else.

Therefore, the fear that j Powell has is that the supply of labor can only fall so much, and once it has fallen to a level, then it's all up to demand. And if demand doesn't pick up. Then the unemployment rate will start accelerating and that is an appropriate time to ease.

And that is basically all he said. What it does do, in my opinion, is lower the probability that any dip in growth that we might have in the future is going to be shallower. And or less pronounced and last less long than would otherwise be the case if the Fed were not to ease in September and once more.

What he did not say is that he will ease in September, whatever might happen, whatever the data from now on shows. Best way to summarize that or see crystal clear is what prices did on the week, and I've just written them down. The two year note was down six basis points. Up to basis points.

Since the NFP came out at the beginning of the month, the tenure note was down seven basis points, but still five higher than the NFP. The 30 year was down five basis points, but five basis points higher than since NFP and the assets that you would've thought would really rip. On an inflationary speech like BTC was down half a percent on the week, gold was only up 1%, and GSG commodities in general, only up 2%.

SPX was almost unchanged up. Point two. QQ. Q was down 0.75 and the Dow, which is heaviest in the stocks, which would suffer most probably in a recession, was up 1.4. The dollar, funnily enough, was almost unchanged down 0.1 of a percent. So the market certainly does not agree with any kind of. Thought or impression or whatever you like to call it, that this was an inflationary speech.

He was certainly more dovish than I thought he would be. He did not go and stress fed independence as much as I would've liked him. Two, but there we are. We are only arguing about semantics. Andy, have I summarized it well?

Andy: The highlights just to reemphasize, there's the fed's out the PALS outlook for the employ employment situation, which he sees as more fragile, which Nick correctly points out, is in the event that labor supply does not continue to fall.

Labor supply is literal people that enter the workforce. If that's been falling or actually it's been not going up, if that ticks, it stops going down. That will naturally increase the unemployment rate if labor demand falls, labor demand. That's about the economy he's a little bit more concerned about a weakening of the economy, as have we been for a while.

Two is the inflation target still 2%. Any mumbo jumbo around what had been the inflation target method using averaging was pretty irrelevant. Three. He decided not to pick a fight with the Trump administration by making this speech about himself and fed independence. I wish he had, but because the cook thing had come out recently, but he'd be playing with gasoline, frankly.

He's not very good at selling. He shouldn't be selling, and the Trump administration can, bring out. The whole world, both witch hunting, finding witches, and then carpet bombing the the news cycle to say that Powell's playing politics if he had done that. So it is disappointed. I'd like to have seen the food fight.

It's probably best he didn't do it. And then lastly, what happens in September if the numbers are hot, he's not cutting. If the numbers are in line. Cold, he's cutting. That's it. Then what? It'll be data dependent. So that's what happened. And the markets didn't move. They fell ahead of the speech expecting hawkish, they recovered fully, basically ending the week, unchanged with Nasdaq down and Russell up.

And the s and p are basically unchanged and the rates market hardly moved. So it was. A bit of a roller coaster, but only in the context of man, there has been no bumps or backs back or, panic or anything until last week for a while. So now we look forward and we look forward to an environment.

This is where Nick and I modestly disagree. If the economy weakens the fed cutting a hundred basis points over the course of the next, even if it happens in the next three to six months. Isn't gonna stop the economy. If the economy really does turn over, it's gonna turn over and there's gonna be job losses, which are gonna create demand destruction, which are gonna create a negative economic cycle, which are gonna hit GDP and the Fed.

Tweaking. The Fed funds rate is gonna do nothing to offset that. On the other hand, it probably does support stocks because people like it when the Fed cuts. But throughout history, the beginnings of a cutting cycle is not the time to buy stocks. So stocks will be down, maybe they'll be down less if the fed's a little bit more aggressive, but they're not ahead of the curve.

If the economy's weak, they're still way behind the curve and the economy's gonna weaken a hell of a lot more. Now, will it? That's a different question. We think the economy's likely to weaken, and we do agree now that it seems Powell agrees that the economy's gonna weaken and they'll act to correct it because inflation isn't gonna be a problem, partly because the economy is weakening.

We'll see if he's right and if we're right. But if we are right, where do you wanna be as an investor becomes the key question. And stocks will fare better than they would have if the Fed continued to be hawkish, but will still go down relative to cash. Bonds broadly will go up relative to cash, but in a steepening sense.

And things that are speculative or debasement oriented, that'll depend on how aggressive the Fed is and how aggressive the fiscal response is. So the overall case is if you think the market's gonna weaken, you probably wanna be long more of the bond market than the stock market.

Otherwise you want the opposite. So how do you play it? If you have some of each and you keep your powder dry to take an opportunity as the data delivers.

Nick: Yeah, absolutely agree. Are we going to learn anything next week that's going to change the picture? I don't think so. I think we have PCE, which we should know to the third decimal.

Because we have all the components and we have durable goods, which might show something, but it's doubtful too early. And then Q2 GDP, which is Q2. So not really any data. That's forward looking apart from weekly claims, but those have been steady for such a long time that it's really not worth talking about until we see a move and we continue to have, your amount of bond auctions, two fives and sevens, 183 billion, and that's.

Really going to keep the market in check at the short end because I just can't see them doing much better, and that is one of the reasons why I also thought that it was prudent to add a little bit to equities and a little bit to gold and take away some of the very short. Term stuff that we have on the yield curve, like SLQD, but I don't think it's prudent to do much more than that.

Just up beta locations very slightly and keep on waiting for the data. It's painful to do that, but probably in just the only thing that to me makes sense at the moment. Yeah. What do you think, Andy?

Andy: Yeah, we've been. Cautious and we remain cautious, but we're recognizing that you can't be cautious forever after a dovish fed speech, we're doing what makes sense, which is if they are going to continue to be dovish stocks in gold will outperform the short end.

And so that's the trade we did. Should we have gone full on this? Absolutely not. I guess the one thing I would say about coming next week is listen, NVIDIA's earnings are gonna be a big deal. They just can't not be. Tech stocks were the worst performer last week. And, some real interesting and major moves.

Palantir peaking at one 90 plus, and then at the lows hitting on Thursday maybe, or Wednesday, hitting 144. And now back to where they were before their earnings. Microsoft going to below where it was before it reported earnings. There's some big movers in the tech market and Nvidia well off its highs, so it, I think the tech earnings are gonna create some wiggles and noise that may be an opportunity for fast moving traders.

But it's not gonna change the basic theme of whether AI is sucking wealth from everybody But. The AI providers and what that means for the economy. So I don't expect that trend to change in a major way. The other thing is on the on other potential out events. Last week we spent a fair amount of time talking about Russia this week.

No rush 'em. They're now, it's just another one of those, Hey, we had a big party. Everyone showed up. It's great. We have an agreement. It turns out that the two opponents in the war are not on the same page. And so we're gonna see what happens. Of course, that's what the Russian thing was going to result in.

And so you know that partic particular stress may show up again this week. May wait till the end of the week. Remember, it's a very. Quiet week with Labor Day holiday. Capping the week next week the following Monday, so everyone's on vacation. Anything could happen. And we're gonna continue to see tariff noise.

I don't think there's any chance we'll get any court related information, but that could always show up. All in all, I would say it's probably likely to be a quiet week, and I'd be pretty darn surprised if markets move radically.

Nick: Yeah. Now volatility keeps on coming down and that is supporting all the risk markets.

You really need an event, a big news event to come in and shock that. And odds are very low that it happens next week. So we have time to decide what to do next, having done what we have at the moment. Alright, thank you very much indeed, and I'll speak to you next week, Andy.

Andy: See you next week.