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Nick: Hello. Today is the 6th of September. We had a pretty interesting week, didn't we, Andy? And for the first time in a while, we seem to be on the same page as to what it means. So let's go through it. We had the employment data various employment data from Jolts to a DP, to non-farm payroll, all showing a pretty weak picture.

And we had the weekly claims still showing that everything is in balance. IE, very weak supply of labor, but very weak demand for labor. Keeping the two in balance naturally, that can change very quickly. We should be favoring a slowdown in the employment picture and an increase in the unemployment rate, and we are already at the dot plots of 4.3, going higher towards 4.5%, and the Fed really being concerned by it and cutting rates by quite a bit.

The forward-looking indicators like the ISM and the P PMI that we had, were still in expansionary territory. They're not showing anything that we should be immediately concerned by, but what they were showing, and I was quite surprised, was that there is no price pressure. The price pressure seems to be coming down as opposed to accelerating, and that actually I think, contributed to what we've seen for the first time this week, and we've been telling you for the best part of two and a half years to stay out of long duration.

And to avoid it like the plague, and we are both changing our minds. We are both thinking that the time has come to actually extend duration and go from the very short end where we've been for what, three years now, which is the two year to five year area that it's now time to extend and go towards the 10 to 15 year area.

And that's what we are gonna talk about, because next week we have PPI and CPI, which will make or break that idea. But I don't think it'll break the idea. I think it'll postpone it rather than break it. What do you think, Andy? What what did you make of last week? And my summation of it and where the market seems to be.

Hinting that we need to go.

Andy: Yeah, lots of things came together for me. Again, I've been on the Disinflationary. Real growth slowdown train for about three, excuse me, about two and a half, three months. Primarily due to the resolution of tariffs at very high levels and also the ongoing immigration labor supply issue, which are both disinflation labor is slightly inflationary, but tariffs and tariffs are. Anti-growth as is immigration. And while tariffs temporarily rise, raise prices, they are in aggregate negative for nominal GDP. So I expected nominal GDP to begin falling and it hasn't. But now we're starting to see labor turnover, which is consistent with that. Lower price pressures is also consistent with, yes, tariffs are inflating prices to the consumer.

Some are being absorbed by the importer, some are being absorbed by the exporter, but prices are rising and I expect them to rise in next week's numbers and in numbers to come. But that's reducing demand at that higher price. And so aggregate demand and GDP are falling and the bond market. Listen, the bond market can do whatever it can do.

Sometimes positioning can get squeezed and you can have a big rally count, counter trending rally. Over the last few years, the bond market has always, when it rallies, has always rallied because the short end has rallied that it's led by policy. Dovish policy, which is what we call a bull steeper.

And so all the rallies have been bull steeper. This one was the first one in a long time. That was a bull flattener. And that to me is an act along with all the accumulated data, the existing policy stance, and the market pricing has convinced me that we are in the beginnings of a. Moderate meaningful slowdown, disinflationary slowdown.

While the data is gonna continue to show it being above target inflation, because tariffs are raising prices in aggregate, those that hot data is gonna be less hot than it otherwise would've been because of weak demand. And weak demand will lead to weak employment, which will lead to weak wages, and the policymakers are not likely to be able to offset that by adequate cuts.

Now cuts are priced in. Now we're certainly gonna cut next week no the week after by 25 basis points, and it's likely there's another cut in 2025 and it's likely there's a hundred basis points of cuts between now and when the. Powell Leaves office. And so all of that is consistent with an easing but not adequate to offset the anti-growth pressures of tariffs.

Now, as we've mentioned, the Supreme Court someday in the future may eliminate tariffs, and if they do, you're not gonna wanna own bonds on that day. But for now, everything is leading to ex for the. Unlevered fund investor who's been on a lot of cash to extend duration, pick up, carry and pick up some upside in the event.

The economy. Economy does slow. And so that's where we're at. We're we think, we're thinking the long end is now not the 30 year that's got its own interesting dynamics. It's not where I put my money. Most people are gonna go from two years to. Five, 10 year and possibly chase yields in spread products like corporates.

And so we think we're ahead of that, and so we want to do that, but we're not so far ahead of it that we want to go out to 30 years because not a lot of people are gonna do that. So that's where we're coming from, and so that's what we're gonna do.

Nick: Yeah. No, it makes absolute sense to me. And really it's a question of timing because next week we have.

Rather oddly, PPI before CPI, and in the middle of it we have the threes, tens, and thirties. So it makes sense to wait for that because the market will not be running away Tuesday, Wednesday, Thursday, simply because, A, the data, but B, even if the data is in line, which is just about as good as you can expect.

The auctions are going to absolutely keep the price suppressed so we have the time to get in at exactly the right point, and I'll be sending out an email and I'll talk about what we want to do later on in my own segment about the portfolio. Anything else that we should be aware because we have the ECB meeting next week as well, but they are expected to do absolutely nothing.

They've only just come back from holiday and it takes them a while to work out what they want to do. I really can't see an alternative to a continued weakness in the dollar, and that just keeps on shaping my investment outlook because just the fact that the dollar keeps on not being able to rally when it should be able to rally, and it keeps on going down whenever the opportunity presents itself from the data point of view.

Like last week it gives me an idea that you don't want to own too little inequities simply because equities are being repriced by the lower dollar. So they're being made cheaper by the fact that the dollar is going down. If that makes sense to people. So foreigners are still buying the u, the US market, and every time the dollar goes down one, two, 3% they have more money to buy equities with.

So what do you think about equities here, Andy? Is it worth keeping a decent sized allocation? Or is the fact that just that we are extending duration enough to compensate. For what equities might do.

Andy: Yeah. My view on equities is in that growth slowdown environment. That's a real headwind to equity prices that'll keep them from running away on the upside.

In my Alpha portfolio, I went to Max short on Friday. Right on. As the market rallied on, in the o on the open, but that's fairly speculative and not for this program. What it does, what it, what I think of in my beta investments is that falling long-term interest rates, which is what we expect, is supportive of equity prices.

As Nick mentioned, it can be the case that a weak dollar's bad for equities, but most often it's good for equities and the dollar seems to be weak. So as a beta investor, my rushing based on this slowdown, which is now. Upon us am I rushing at to lower my allocation in equities? Listen, if I was 60% equities, if I was near my max allocation, I'd be selling at a little bit more than our minimum allocation.

I think we're fine. And the same thing basically applies to gold. Gold is super extended. The do partly due to this dollar weakness. And if. Bonds become more attractive, which is what we think they will do. There's been a tremendous flow out of bonds into gold and it's extended. And so if I look at my gold allocation and say, am I really overweight gold in a big way, in an unmanageable way?

I'd be selling some here, but are we? No, we're fine. So I think we stick with our existing allocations and frankly are in great shape if we get a four or five, 6% correction over the next month and a half to increase our allocations on a dip in both of those things. Yeah,

Nick: excellent. I'll talk about what we want to do, how we want to extend duration, and otherwise we'll speak next week.

Yep. Have a good week. You too. Bye. See ya.