

2 Gray Beards Week 151

Economic Data: Unreliable Through January

Nick opens by noting that the data finally arriving after the government shutdown is stale and showed essentially no change from pre-shutdown readings. PMIs came in flat, and while September's NFP was slightly stronger than expected, a closer breakdown revealed nothing meaningful.

Andy takes a harder line: he considers all current data corrupted. The collection methods have changed, reporting is delayed, and the normal schedule has been disrupted. He doesn't expect to see high-quality, consistently collected data until late January. His approach is to simply not pay much attention to the catch-up releases, viewing them as noise rather than signal.

The problem, as Andy frames it, is that policymakers can't wait—they have to make decisions every six to eight weeks regardless of data quality.

December FOMC: Powell's Call

The December meeting (second week of the month) presents a genuine uncertainty. Andy breaks down the committee dynamics:

Definite cut votes: Waller, Williams, Bowman

Leaning toward pause: Several members including Schmid (who Andy describes as absolutely voting for a pause)

Undeclared/deciding: Powell and Barr

The Fed needs seven votes to act. Andy explains that Powell can engineer either outcome. To cut, he needs himself plus two others joining the four definite cutters—something Powell could achieve through private assurances (promising this would be the last cut, or that he'd frame it hawkishly). To pause, he has enough members already leaning that direction; he'd face a dissent but could easily hold the line.

Interestingly, even Waller—whom Andy describes as the most dovish and potentially politically motivated member—has hedged. Waller reportedly said he'd vote to cut only if he's the marginal vote needed, which Andy interprets as uncertainty about whether he'd even dissent against a pause. Andy still expects Waller would dissent, but the fact that even he is wavering illustrates how divided the committee is.

Nick offers a practical framework: the Fed will likely cut only if asset prices decline meaningfully before the meeting. If markets remain stable, it's a coin flip. Andy agrees and references something Nick apparently tweeted—that if the S&P 500 is at 6,500 or below by December 9th, Powell cuts; if it's substantially higher at 6,700-6,800, he pauses. Given the lack of reliable economic data, stock market sentiment becomes the de facto guide.

Terminal Rate: The Bigger Picture

Both Andy and Nick emphasize that the December decision, while tradeable in short-term interest rate markets, doesn't change the fundamental trajectory. Nick notes he's been watching the terminal rate expectation, and it hasn't budged—it sits around 3%, and that's where the Fed is headed whether it takes a month longer or shorter.

Andy frames the key question: are we debating the Fed's direction, or just the timing? He believes clearly the latter. Two-year notes are pricing in a 3% terminal rate, and nothing in the data suggests that should change.

Looking a year out, Andy expects inflation to be meaningfully lower for two reasons: tariffs will no longer be increasing (only maintained or reduced, which is disinflationary), and the economy is broadly slowing. With inflation coming down and the terminal rate anchored around 3%, the path is set—only the pace is uncertain, and that uncertainty creates short-term trading risk.

Crypto Selloff: Not Digital Gold Yet

Nick raises the major selloff in crypto assets, noting it's been ongoing for over a month. He asks whether this represents an opportunity.

Andy's response is measured but skeptical. He appreciates the concept of digital currency as an alternative to gold, and he loves gold—always has, always wants it in his portfolio at a meaningful weight. Gold is in the 2 Gray Beards core portfolio.

But Bitcoin, in Andy's view, hasn't earned that status. The aspiration is there—most people want it to function as an alternative to hard money—but the behavior doesn't match. He points to the week's performance: gold was down just 46 basis points and sits near all-time highs, while Bitcoin dropped 10% and is roughly 35-40% below its peak from about a month ago.

Andy's conclusion: as a very small portfolio allocation, crypto is fine. As a trade, it could be interesting short-term. But for him to make a major allocation—to replace some of his gold with Bitcoin—it needs to start acting like digital gold, and it simply isn't doing that yet.

Tech Sector: Data Center Theme Under Pressure

Nick notes that some tech sub-sectors are down 50%, and the short end of the yield curve is bid due to equity weakness. He brings up Nvidia's earnings, noting that the market reaction was exactly what they had feared—investors used the strong numbers as a selling opportunity.

Andy provides a detailed breakdown of where the damage has occurred. The pain is concentrated in data center investment plays:

Oracle: Made a massive, debt-financed push into data center buildout about a month ago. The stock hit \$344 at the time; now it's trading at roughly half that level, near recent lows.

CoreWeave: A darling data center play that has been "destroyed."

Amazon: Flat for the year—unchanged, despite being a major hyperscaler.

Microsoft: Underperforming QQQ peers, up only about 12% for the year.

Winners: Only Google and Nvidia/semiconductors have delivered meaningful returns among the major data center players.

On Nvidia specifically, Andy recounts the price action around earnings. The results were spectacular, as expected—they crushed earnings and projected fantastic forward guidance. The stock rallied and tried to reach \$200 (which wasn't even clearly its all-time high), but failed. It failed again, then ended down. On Friday, the Trump administration floated the idea of allowing Nvidia to sell some restricted chips to China, which caused another bounce—but that also failed, and the stock ended low on the day.

Andy characterizes the price action for Nvidia and semiconductors broadly as poor. These have been the market leaders, and the data center business—where hyperscalers and tech companies actually pay real money—is under massive pressure.

His assessment: conditions are not great. If you didn't own Google and semiconductors this year, you largely missed out on decent returns. This narrow leadership is likely to wear on investors and probably won't spark a year-end Santa Claus rally.

Andy's tactical advice is to let falling assets hit the ground before picking them up. He might try to catch a few falling knives and get lucky, but he's looking for a few more percent of downside before stepping in.

Looking Ahead

The following week is holiday-shortened (three trading days around Thanksgiving) with Treasury auctions in 2s, 5s, and 7s that Nick doesn't expect to move markets. They sign off wishing everyone a happy Thanksgiving, noting they'll send email updates if anything significant develops.