

2 Gray Beards Week 152

Andy: This is another episode of Two Gray Beards. It's November 29th Thanksgiving week is behind us and the markets reacted to what was essentially a quiet news flow with some. Idea that the Fed is going to cut in December and that Hasset is the most likely replacement to head the Fed chair.

And boy, assets all rallied a lot with equities up three to 5% crypto up six to 7% bonds strong. And the short end fading addition suggesting that cuts are incoming. What did you make of it, Nick?

Nick: I agree with you. I think it was a question of everyone wanted to buy the market down at 6,500. We got there for a millisecond and we saw that it wasn't gonna go any lower, and then everybody basically decided to start chasing it for the reasons that you mentioned.

But I think that what's important to remember is, A, that it was thin, and B, that all the reasons why. I in particular think that the market is very dangerous, and that is. Primarily because of the SCOTUS decision. That will come out soon, sometime this month. In the next four Mondays probably we are going to have that SCOTUS decision, and that could be a big time change for macro because I think that if the bond market now starts backing up and steepening the curve.

Significantly, which I think would happen if SCOTUS decides that these tariffs are illegal and it's gonna take a long time for them to reinput them in place correctly. I via Congress and via doing specific deals that would then be approved by Congress. It's going to be a very tough. Few weeks for equities and certainly for bonds.

And that is why I think that what is happening at the moment is just a knee jerk reaction to the market, not wanting to go lower ahead of that decision, which made sense to me and everybody piled in. I think it's the wrong thing to do to chase it, it doing us favors because we have.

Precisely the right position. I think we're in the short end. We can't get hurt by any kind of a steepening, and we are long of equities and long of a put, so we can't really get hurt even if the market decides to go down and if the market decides to go up. On the back of a SCOTUS decision, which it could easily do as the first reaction, because the first reaction should be buy equity, sell bonds, then we can actually sell our equities and just remain long of a put.

So I think we are in a fantastic position for what could potentially be a very volatile time to come in the next few weeks when that decision comes out. But let me just say a few. Words about the F1 C. I know it's not next week, but I think we have to start thinking about it and seriously thinking about it.

The situation at the moment, as I see it, is that we have almost an equal number of governors. Either side of the debate I about four or five who would be happy to cut and equally an equal amount that are not happy to cut, which would mean that whatever Powell decides, they will follow that decision and try to remain to maintain cohesion at the FOMC level.

We are very close to what every single governor apart from two reckon is the neutral rate, whether it's half a point lower or quarter point lower, nobody can agree and nobody really should care about it. Which basically means that if they decide to cut in December, the most likely outcome is a very hawkish cut, which basically would be go something like this.

Here you are boys. We are at neutral, and that actually removes. Any expectation that they will move again until the data tells them that they need to move. And certainly that would be baked in stone just about, I think, until the new Fed chair takes over, which would mean to me that. The likelihood is that even the terminal rate starts wobbling because if they get to three and a half, 3 75 and the data does not decelerate, and it hasn't, let's have a look at the data.

The only piece of data that we can that is current and that we can absolutely rely on is weekly claims and continuing claims, and next week we get the a DP for November as well. All the other data that we are getting, including pc. And all that. It's for September. Nobody cares what happened in September.

We know what happened in September. We live through it now. We are getting the data for Decem for November and December, and that's going to be the important data. If that data shows no weakness, why would they cut again? Certainly they won't cut until the new Fed chair gets announced and then. Takes his place on the committee and that is a long time to wait for any further cuts.

That's why I say that if they cut now, it's actually worse than if they wait until January because if they cut now, we will have nothing to look forward to all the way into May. If they cut in January, then we have something to look forward to. IE that cut and that's why I'm far more bullish of equities and bonds if they don't cut in December IE in 10 days time.

And let's face it, Powell is speaking on Monday evening. I think it's unlikely that he gives us any hints. And therefore, because let's face it, they are in blackout, so he would be breaking his own rules as it were. And the chairman doesn't do that. He's a straight shooter. Powell is unlikely to say anything much during that speech.

Given that and given that they hate disappointing the market and that the market is now at 80% odds that they cut, I think it's very unlikely that they don't cut in December. And that's why I'm not bullish for anything, because after they've cut, what have we got to look forward to? Just a decision by the Supreme Court.

Where the odds are, 75, 25, that they rule that the tariffs are illegal. That to me is a recipe for. A lot of volatility in December after they come out with that decision. That's my standpoint. What do you think, Andy?

Andy: Yeah, I think it's markets have gone nowhere in three months. They've chopped a little bit since the last, since the September fed meeting and we're coming into three months.

It's hard to say where the markets are gonna go, but there is quite a bit of uncertainty that is looming. And markets are, to me, are relatively propped up by

holders that are not institutional. And they've won. They've been very successful buying the dip. And the question for me is, ultimately the way you profit from stocks is you sell them after you've made a fortune on them. You don't just keep holding them until they go back down. And so somebody eventually has to sell.

And that means somebody has to buy. And the question for me that I'm wrestling with, and I just don't see it from any of the flows that we get any of the conversations I have with institutional clients that they have any, rush or need or desire or pain or whatever you might call it, fomo, to go and buy stocks when multiples are 23 to 24 times.

And interest rates are already low and unlikely to get substantially lower. Earnings expectations are extremely high and so no one's rushing and frankly. The leadership has had some significant. Issues we haven't talked about Nvidia and Google and the whole idea of what's going on in ai, what's going on with the underlying technology, whether it's going to be productive, and then who the winners and losers are.

Last week we had a major flip between Google being suddenly, which had been the one that was going to be the most destroyed by AI, to now being the one that's the new leadership of ai. And so there's a lot of undercurrents that are going on with really not much action. And so at some point it'll break in one way or the other, up or down, but that'll depend on how the data plays out.

And right now the data's not obvious.

Nick: No, I agree with you. But we don't even have any data that is going to change our views next week, do we?

Andy: Certainly,

Nick: because for, no, for November and December all we have, as I said, weekly claims. And the a DP PMI and ISM, great. We will know that the economy is still, chugging along.

So there's really no reason to change change any views at the moment.

Andy: Agree. Yeah.

Nick: We'll we'll let you go at that, in that case because we like our positions, right? Is there anything that we should be even thinking of changing?

Andy: I don't think so. I don't think you'll wanna be buying duration here.

I don't think we need to be getting, we've sold our credit exposure. I don't think we need to be getting back into that. There's no particular re the reason why we sold is still the reason why we sold is certainly still in place. Equities we're in a catbird seat position. Sure we could be a lot longer if the market rallies, but what's the upside?

Not much.

Nick: No, I absolutely agree. I think that this decision by the Supreme Court will come out and it'll be very important. And then we can, once we've seen it, we can react. And if the yield curve really steepens, then we know what to do and we just wait for it. We are very nicely positioned. Why change anything now?

Absolutely no reason.

Andy: Yep.

Nick: Thanks very Landy.

Andy: I think that's time for us to end and see you next week.

Nick: See you next week.

