

November 29, 2024

Market Action & Primary Risk

Post-Thanksgiving rallies (equities +3-5%, crypto +6-7%, bonds strong) driven by expectations of December Fed cut and Hasset Fed chair speculation. Nick views this as a "knee jerk reaction" on thin volume and identifies the impending SCOTUS tariff decision (expected within four Mondays) as the dominant risk. He assigns 75% odds the Court rules tariffs illegal, potentially triggering significant yield curve steepening and volatility as reimplementing would require lengthy Congressional approval.

The December Fed Dilemma

Nick's counterintuitive take: More bullish if Fed *doesn't* cut because a December cut leaves no catalysts until May (post-new Fed chair), while skipping December preserves January as a near-term driver. Fed is near neutral rate (governors split on whether 25-50 bps lower). Any December cut will be hawkish, signaling no further moves until data deteriorates.

Reality check: With markets pricing 80% odds of a cut and Fed's aversion to disappointing expectations, Nick concludes December cut is very likely despite preferring otherwise. Powell speaks Monday but is in blackout—no meaningful hints expected.

Data: Only current reliable indicators are weekly/continuing claims. November ADP, PMI, ISM coming but likely just confirm economy "still chugging along." Other data reflects outdated September readings.

Equity Market Structural Concerns

Andy highlights sustainability issues: 23-24x multiples, rates already low with limited room to fall, extremely high earnings expectations, and notably absent institutional participation. Markets "propped up by holders that are not institutional" who've successfully bought dips but must eventually sell to realize profits—requiring institutional buyers who aren't materializing at current valuations. Tech sector experiencing leadership uncertainty with AI productivity questions and recent Google flip from "most destroyed by AI" to "new AI leadership." Markets have "gone nowhere in three months" with significant undercurrents but minimal action.

Portfolio: "Fantastic Position" for Volatility

Strategy: Long equities + long puts (asymmetric payoff), short-end fixed income (protected from steepening), no credit (sold earlier, reasons still valid). Positioned to benefit from any SCOTUS outcome: if tariffs struck down and market rallies initially (expected: buy equity, sell bonds), sell into strength and hold puts; if market falls, downside protected.

Conclusion: No position changes warranted. Comfortable waiting for SCOTUS decision before reacting, confident current positioning handles anticipated December volatility regardless of direction.