

## 2 Gray Beards Week 150

**Nick:** Hello, ladies and gentlemen. Today is the 15th of November. It was a pretty quiet week really, and things, prices didn't change very much at the end of the day. We had lots of ups and downs, but really the net net was very little indeed. What is going on at the moment? The shutdown has finally ended. And we are about to get a big data dump next week.

We are going to get the October unemployment report on Thursday. Not that the market is going to react very much to on an October report, but we shall see in any case going forward, we will have the usual amount of data, which is good because the markets can react to real data as opposed to all these semi-private.

Data providers that have caused more confusion than anything else. Certainly in my own mind, we also next week might get the SCOTUS decision. Very low odds that it's next week, but sometime over the course of the next four weeks, it's certainly coming, and the odds on Cal share at the moment are 25% that they will say that they're legal.

So certainly we are gonna get some. News on tariffs over the course of the next month, which are not going to go the administration's way. Odds are otherwise, we still are getting the profit taking in tech ahead of the NVIDIA earnings because let's face it, the earnings are likely to be fantastic. The earnings for all the mag seven were excellent and yet.

The market reaction apart from a few days was actually not great. They all these stocks are more or less trading where they were before the earnings releases, and therefore the market is being a bit careful and it's selling off the tech portion, and going into other stocks which are more defensive in nature rather than all in on tech.

Why we've had a slew of fed speakers over the past week, which have prepared us for a Fed pause in December. You'll remember that we said that the odds should really be no better than 50 50, that the Fed will cut. And why would they? They haven't had any data and without data, why would they abandon the current policy?

That is what the market is beginning to reflect. The odds are now 50 50 that the Fed will cut in December and they're going down. I wouldn't be surprised at all if, unless you get a very low CPI number. Which is unlikely low odds that those

odds are not even at 25% that the Fed will cut, which basically means that the stock market is facing a headwind in terms of bond prices.

The yield curve last week, slightly steepened, but without. The market being certain that the Fed will cut or will continue its cutting cycle. It's very, very unlikely that we get big moves in equities and therefore this rebalancing is taking place. Let's take risk off the table. Let's lower some of the.

Big tech positions, let's go into things which are more defensive. That is my summary of the week. Is there anything that you'd like to add or disagree with Andy?

**Andy:** No, not really. I'll just make my own comments. Just from what actually happened, bond yields across the board went up by five basis points from twos out to thirties.

In a sort of parallel way, everything Nick just said regarding future Fed Path and a bit more hawkish tone equities and p 500 was essentially unchanged. The Nasdaq was down a tiny bit. And so it was really more of a digestion. I guess the big thing that was happening was Bitcoin was down 8.5% and making new lows, and gold was surprisingly strong.

So when you add all those sort of things up it's definitely a de-leveraging motivated by people just over their skis a bit on risk. And so the question is what takes it to the next level and whether the de-risking has already occurred. No, a lot of stocks are down a lot. Meta's down 18, 19% from its highs.

Bitcoin's down 30% from its highs. Oracle rallied from two 40 to three 50 and now is back to 2 25 ish. All on hype on hyperscaler payments, but the bigger picture is that when we look forward. What do we see for 2026 and beyond? We see promises, and those promises are for massive hyperscaler CapEx, massive demand from the rest of the economy for AI services.

Huge foreign investment into factories and. Those things all need to get financed. Somebody has to lend the money to those folks to do all that spending. The government is still running a \$2 trillion annual deficit that needs to get funded. And so there's just a bunch of debt.

Supply that really escalated in the last few months as cash flow. Reinvestment in CapEx ran out of cash flow to continue to make the, to fulfill the promises. And now it's gonna have to be debt financed. That's pretty good for economic

activity if you have all this spending, these spending promises and those promises are realized, but they have to get financed.

And so, that to us is the big outlook. And so when you look at that, you have to think about what that means for markets. It means continued pressure for higher interest rates and. Pretty decent economic conditions.

**Nick:** Yeah. Let's add up those numbers. You're talking about at least one and a half to 2 trillion in terms of AI spend.

You're talking about 2 trillion in terms of the gove issuance to fund the deficit, and then you are talking about an unknown number for the financing of all those obligations that. Other countries have taken in terms of investment in the us Just this week we had the Swiss announce that they had seen that their tariffs will come down to 15%, but they have to invest something like \$200 billion into the US economy.

Well, how are they gonna do that? The Swiss have 200 billion worth of treasuries. They could easily sell an extra 200 billion worth of treasuries, take the balances down, and build some factories with the money. So you're talking about an awful lot of debt that needs to be issued over the course of the next year just to make things stand still.

That certainly is very, very likely to have a reflection in terms of prices, isn't it, Andy?

**Andy:** Yeah. And if you add up those things like for, not just the annual pace, but the overall pace you've got over the next five years, call it, you've got 10 trillion of deficit. You've got what I've calculated with UAE, catter, Japan, Saudi.

South Korea. I didn't add Swiss. Making promises that have been announced by Trump,

that's like 7 trillion. And then you've got ai, which is running a trillion a year. I don't know how long that lasts, but there's just a lot of debt. There's a lot of debt coming.

**Nick:** Okay. So what is going to happen next week do you think? Right. So we,

**Andy:** we don't have much in terms of news. There's a tips auction.

There is the all important NVIDIA earnings report and there's a, the first government data is gonna come on the jobs situation, which is gonna be a sort of a, a. Partial report that should give us some indication of what's going on in jobs and possibly scotus. But you'll add all those things up.

It's go, we're going into a holiday shortened week the next week. It all comes down to what the market reaction is to Nvidia because as Nick said, started this conversation with, this is the greatest company in the world selling product like crazy. With all everybody wants, picks and shovels, everybody.

All that debt we're talking about is to buy Nvidia chips amongst other things, but centered around buying Nvidia chips. So the earnings are gonna be great. Jensen won is going to take this opportunity. Like he takes this opportunity every time to project out incredible numbers that are likely to be realized.

We all know that's what's gonna happen. And so the question is, the multiple for Nvidia has been pretty darn stable for the last few years. The price to sales multiple has been pretty darn stable. NVIDIA's stock price performance has not been stable. It's been. Unbelievably great, and that's because they're earning a lot of money and it's growing a lot.

So that's just a constant accrual that keeps the market going. But valuations could shift for no reason at all to enthusiastic indicating people are trying to chase the AI boom or. Temporarily pessimistic. And so I think what's important is, and we don't know.

What we don't know is how the market's gonna react. And so that's the signal. Yeah. Once we, by, by next, this time, next month, next week, we're gonna have a pretty good sense of what the rest of the year is gonna bring in terms of equity prices.

**Nick:** The bond issuance isn't going away.

And those numbers that you have added up are just frightening in terms of what the headwind is going to be for stock valuations from bond yields.

**Andy:** Right. That's the big question. It's super growth, right? People expect, as I said, everyone expects NVIDIA's earnings to grow. Everyone expects all of the hyperscalers earnings to grow

growth based on this massive investment boom that we just talked about is expected. And the multiples are very high. So multiples have a big, I are

impacted strongly by interest rates. And so the question is, can with all this growth already projected in and multiples high can equities generate significant returns?

When bond yields are rising and our view is, no, they can't.

**Nick:** Yeah. Now, so let's discuss how a beta portfolio, what we've actually said is the Fed isn't cutting in December, which does not mean that terminal rates are going to go up. If they go up very much at all, they might go up three, four basis points.

So how does a beta portfolio take advantage of that? The only thing a beta portfolio can do in that environment is lose as little money as possible and hopefully that amount of basis points that it loses is covered by the carry. The coupon that it's clipping continuously

means that you have to go as short as possible and wait for the steepening of the curve to happen and then go into the extend your duration once it's happened, but correct. But all you can do in the meantime is stay as quiet as you can, as short as you can lose a little bit of money, but you're gonna lose very little compared what to what you could lose at the long end is that.

How you could you see it too, Andy?

**Andy:** Yeah, I'd add corporate spreads are also vulnerable to, they're fine. No, the big corporates that we own, which we're gonna deal with, but the big high grade and even high yield, those credits are fine. I'm not worried about a credit event where you get significant bankruptcies.

I just think the yields are gonna rise a little bit.

**Nick:** Yeah. And that's a headwind to everything, growth and everything else. Is that all we have? That's, I I will go through what changes we need to make.  
Gold

**Andy:** gold's been all over the map and, it moved \$150 up and then \$150 down in two days for no reason.

Bitcoin, which we own a bit of, is still well above our cost, those things represent money. And rela, are volatile. I guess we could tweak that a little bit, but yeah, I sort of like the gold the Bitcoin we

**Nick:** could rebalance and wait.

**Andy:** Yeah, I'm open to that.

**Nick:** Yeah, so that's about it. I will go through all of this in terms of the portfolio and what changes we are making, but otherwise. I can't see what else there is to talk about for next week.

**Andy:** Gotta, the big things are once the SCOTUS decides and then the administration follows up the market reaction for Nvidia, I'm leaning toward it being negative because that's the way earnings have been.

But who knows? I think it will be a signal once we know and whatever happens in the days to come after Nvidia will likely. Be extrapolated till the end of the year, but we'll see. And then I guess lastly we'll start getting data,

**Nick:** but the scota decision I think is gonna be very, very important.

And we can't see any reason why wouldn't be negative bonds, do we?

**Andy:** Well, let's say they give it to 'em, they give them ultimate power and. He decides to raise tariffs. You have to. Read the room. That's good for Bob. You have to read the room a bit. He seems to be in, there's some high inflation prints on the horizon if that becomes an elector election issue for him, and I think it is price level certainly matter.

The increase in price levels certainly mattered to people. If that becomes an issue to him, he's gonna ease tariffs. The idea that tariff, if he gets all this power, that he'll then ramp up tariffs is just not reading the room right? I don't think so. I don't think you can get a positive bond outcome.

**Nick:** So basically what we are saying is the odds are that bonds suffer over the course of the next two to four weeks, a because of the scota decision. B, because of the incredible supply that the market needs to discount and digest into 2026 and further. So given that we really can't be positive on bonds, and that is unlikely to be a good wind for equities, which basically means that we could, after Nvidia get a nice dip that we could possibly buy, but it's not yet.

**Andy:** Yep.

**Nick:** Okay, Andy, I shall speak to you next week.

**Andy:** Thank you, sir.

