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December 20, 2024

Data Reliability Crisis

Nick and Andy express serious concerns about U.S. economic data quality. The recent government closure significantly disrupted data collection, and the administration's distrust of existing methods is driving methodology changes. With another potential shutdown looming in January when the continuing resolution expires, data may remain unreliable until Q2 2025. Despite surface readings showing stable unemployment and mild inflation, the analysts question whether markets can trust this information for investment decisions.

Duration: Wait for Better Levels

Both analysts strongly recommend **avoiding bonds at current prices**. With 10-year real yields around 180 bps—"right in the middle of the range"—duration offers insufficient compensation for risk. They're waiting for significantly higher yields: 4.50%+ on 10-year Treasuries, 5%+ on 30-year bonds, and 225 bps real yields. At those levels, banks with expanded balance sheet capacity would become natural buyers.

German and Japanese bond markets show similar stress, with yields at multi-decade highs. Heavy upcoming issuance from governments and corporations adds further pressure. The analysts dismiss yield curve control speculation, arguing the market will find buyers at appropriate prices without intervention.

Favor International Equities

While U.S. equities hover near all-time highs, the analysts expect minimal or no Santa rally, with any year-end gains likely reversing in mid-January. Their key recommendation: **favor non-U.S. equities**, particularly developed markets (VEA), which have doubled S&P 500 returns in 2024.

The administration appears comfortable with dollar weakness, which supports both foreign equities and gold. Non-U.S. markets don't require Fed easing to perform, and European countries are planning domestic investment with expanding deficits. Current equity allocation in the mid-30s percentage is appropriate.

2026 Outlook

The real opportunity emerges when real yields reach 225 bps. If equities hold up, rotate from stocks to bonds. If equities decline alongside yields, buy both—banks should outperform as duration becomes attractive. This remains a 2026 story requiring patience through early 2025.