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**Nick:** So what did we learn last week, if anything? Very light on data, but the things that struck me apart from Maduro now being imprisoned as of this morning, and the market, not knowing how to take it.

I personally think that it's not a market moving event, but we'll see what you think. What we've seen so far is that the Fed reading, the Fed Minutes are definitely worried about unemployment increasing far more so than inflation increasing, if I might say so. While the data, the weekly claims keep on showing an infl a non-employment picture, which is absolutely steady as she goes, absolutely no deterioration in employment whatsoever, and that seems to be causing the yield curve to back up it's steepening with the long end, really not liking what it's saying because it's quite reasonably saying, okay, you guys are cutting.

Because you think unemployment is gonna go up, unemployment is not going up, which means that you are actually making the economy hotter and therefore inflation is unlikely to A, go down to target, or B, stay at target, even if it's going down at the very moment. So that seems to be the situation. And of course, equities are being.

Are in a headwind from the higher yields at the long end. Throughout the last quarter four of 2025, we had the s and p up. What 1% the Dow up one and a half to 2%, and the NDX actually down over a percentage point. That basically just shows you that the long end is a big headwind to equities at the moment with the higher beta stocks, the qq's being affected the most.

That's what I'm seeing, and there is absolutely no change in that picture. Last week what do you think, Andy?

**Andy:** Yeah, I think it's a very good point that the whatever we had seen in a to very strong rally in off the April lows has subsided in QQ four. As it relates to the bond market.

I I would say things slightly differently. I think we agree on what to do about it in terms of the root causes of different things, but and the positioning, but. For some reason, the market is accepting modest future cuts. Perhaps it's because the data, as Nick said is fine. Though the Fed is clearly worried about it

the. Unwillingness for the market to price in more cuts tells me that the markets just will not accept this idea that the Trump appointed Fed chair will drive interest rates significantly lower. And I think the best way to think about that is. Where the neutral, where the trough interest rate, it's not the neutral rate, it's the trough interest rate.

And the trough interest rate is the rate, the low rate along the yield curve, and that low rate is still north of 3%. And hey, we're at three and a half, three and three quarters on the Fed funds target range, and the market's saying nope. Cutting is almost over. Furthermore, global interest rates, every central bank is either done or in Japan's case, hike, hiking, so the market just does not accept the idea.

That interest rates are gonna be substantially lower in 2020. Six. Now they, I think they will be, I think the, I think we disagree regarding the, both the importance of the data perhaps and the direction of the data. I think we're going to slow down meaningfully. Then there will be a cause for interest rates to be brought below 3%.

But when you look at the longer term bond yields, given that the market doesn't agree with me and thinks that cuts are almost done, the 10 year and the 30 year still don't offer a lot of compensation for taking longer term exposure and. There's plenty of supply. There are even if the treasuries of the globe, Japan's treasury may reduce the amount of long-term bonds they're selling.

The US has in the past LL lent leaned on bills issuance instead of longer term treasuries. When you look across the entire. Need for financing. In a world in which a trillion dollars of annual spend is focused on AI and Europe is re-arming, eventually the Ukraine will need to be rebuilt and the US is asking for.

Private sector and foreign investment in reshoring and building factories, which will all be financed with either the selling of. Assets that these foreign nations own, like treasuries or borrowing, which will drive long-term borrowing 'cause these are long-term investment projects. Long-term, borrowing the supply from both the private and the public and asset owners for long-term treasuries is still just very bearish relative to what's happening on the front end of the curve and the front end of the curve.

Getting no love yet, no one's believing that the Trump Fed will cut. And so you're getting a combination of short-term rates aren't really going anywhere. Certainly not rallying, falling as despite Trump's rhetoric and longer term

bonds, dealing with a curve that's not very steep to begin with and has a lot of challenges in front of it.

When you look at all of those things. You're left with a headwind to equities because for one, there's lots of assets for sale. Somebody has to buy them. Maybe that's an equity owner. And. The absolute levels of yields and the term premiums built in, that's just a headwind for equities, and we've been basically dealing with that head fund for three months, and so the resolution of that situation will be either.

The economy does weaken and the Fed cuts more than expected. The economy doesn't weaken and the Fed cuts more than expected, which is really bad for the long end and really good for gold and okay for stocks, or, hey, the economy actually is really strong and. Short-term interest rates aren't gonna fall at all and thus long-term interest rates are likely to go up quite a bit.

So this picture remains the same, but that's the way I see it as it relates to Maduro. Who knows? That's recent news. That's the only recent news I would speak to regarding, besides market action for last week. And that's gonna be a little bearish oil, which is a little bullish bonds because of the inflation impact.

But I think it's a non-market event.

**Nick:** Yeah. Actually IG has got oil up a couple of dollars, but I think that's a very short term move. And I would fade it. I would certainly be a buyer of equity. What the, what? The weekend

**Andy:** internet market?

**Nick:** Yeah. No, they've got this IG index thing that we, they do a weekend betting kind of thing, and that's what they're showing at the moment.

It's all rubbish, but. I agree with you. I think that the real problem is that real interest rates aren't high enough yet to, for people like us to buy them, and we are looking for the two to two and a quarter percent range for us to be able to. Extend duration again and start buying not just the where we are positioned at the very short end, but start buying something like the tenure and when that happens, if stocks are backed up enough, it will be a great buy for both bonds and stocks.

But we are just not there yet and we mustn't forget that we have two big swords of Damocles hanging over our heads right now. We have the SCOTUS decision

on tariffs. We have the appointment of the Fed chair. That kind of resolution is going to come in the next couple of weeks, most probably. Andy?

It's gotta come out soon. I would, I

**Andy:** would think so. We know that SCOTUS will come out by May, but that seems ridiculous. And we know that Powell will come out by May. The Fed chair will come out by May, there's a possibility that just because of the gamesmanship around. The Steven Myron's expiring term.

Remember he was temporary until a permanent replacement for Kler is made. And that may need to be the, if it's an outside fed chair, may need to be that there's some gamesmanship going on. Perhaps whether Powell will stay for his. Extend his term, keep his term for the two additional years he has as governor while he's not chair, there's some gamesmanship, I expect it to happen in January.

**Nick:** Both of us. Yeah, no, Trump has said that he will, nominate someone in the FIR very early on in 2026. And so I expect that to happen now and really I expect it to go to sometime in December. I dunno what they're waiting for. But, let's let's see. But those are two very important market moving events that we can't really do anything much to our portfolio before they're resolved.

Would you agree with that?

**Andy:** Yeah, I agree. I think the market has certain expectations, the Fed share. It's a toss up. There's some days it's has, it's always favored, but some days it shifts to Waller and other days it shifts to wars. What we have to look to is whether the market ever says yes, Trump's new Fed is gonna cut rates substantially.

'cause right now, regardless of who the Fed chair is, even if it ends up being hassett. How much are they going to actually lower this trough interest rate? Until he starts actually doing the cutting is gonna be the big question, and that's gonna be whether the cutting is necessary or not. So it's, I don't think we're gonna get a massive market reaction based on the Fed share.

The SCOTUS decision is. Less clear. One thing I am certain of is if the unlikely in the unlikely event, as it relates to what expectations are. The unlikely event is that Trump gets a essentially the SCOTUS rubber stamps trumps actions and says. Go ahead, boys. You can tariff as much as you want in whatever way you want.

If they were to do that, I think that would have major market consequences. Something less like that. Is going to be nuanced and the Trump administration has alternatives to correct those nuances. So I think you're gonna get a sort of market reaction that is likely bad for bonds and good for stocks if the initial decision is negative against Trump.

But. It's really unclear.

**Nick:** Give us a couple of words on what you think the market reaction is going to be if they just rubber stamp it.

**Andy:** Wow. So that to me just opens the door for Trump to. Negotiate tariffs with our counterparties harder. And he thinks it's very good for markets. And so the market might, 50% of the market loves Trump.

And so they may say buy equities, but to me that's extremely good for the deficit because tariffs are gonna be at least as big as they are and maybe larger. Bad for growth and bad for inflation, meaning inflation growth goes down and inflation goes up, and so that isn't a great environment to own assets.

But he also tacos. So my knee jerk view would be, it would look more like pre liberation day market action. Then post taco, I guess that was April 9th where he reversed. So I would think it would be more like Q1. What do you think?

**Nick:** I don't know. I certainly think it'll be duration positive and I think the first reaction in the bond market is going to be a positive one, which should support equities.

The second reaction, as you said, it's higher inflation, most probably, and that would mean that everything reverses again. But we shall see. That's that's all I can think of at the moment, but I agree with you. It should be equities negative overall and bond positive overall, which is exactly the opposite of the situation we have at the moment because everything really is more equity positive and bond negative than not as it were.

So what do we what are we looking for next week? We've got a slew of data, from the isms, the pmi, a DP, weekly claims, and finally, NFP. Are we gonna be any clearer, do you think the quality of this data is going to be any better than we've been getting, in, in the past month or so?

**Andy:** Everything I can see, I, there's as a, as I like to say, there are.

There's a huge industry of people whose job depends on how important this data is. And so whether it's the news media or pundits or research analysts or subscription sellers or anybody that, there'll be a great deal of attention on all this data. And for me, since the shutdown, I've had no interest in the data.

I don't believe it. Not that I don't think anybody's manipulating it. They may be, but that's not what I'm saying. I'm saying it's crappy collection and unlikely to resolve until well past January. That's my view. So I'm really not focused on it, but the market will have, as I said. A huge industry that's gonna try to get you to focus on the noise of this data.

And I don't think it'll provide any information whatsoever. That's would be my view. If it, if the market were to move significantly based on any data that comes out next week, I'd wanna fade it.

**Nick:** Alright. So what are the high sort of level points that we are trying to. Put across a, we are not going to, excuse me, we are not gonna change our allocations very much until we know what the Skoda's decision is, and we are not going to do very much until we know who the fed chair is.

All those should come out in the next few weeks, we hope. The data. We can disregard it for now.

**Andy:** Yeah, I think we should lean, describe briefly our thinking, which is we prefer non-US assets, sorry. non-US stocks. They've performed extremely well. The dollar is vulnerable, one of the possible outcomes.

Is either the bond market, we lose the bond market or we lose the currency. So one way or the other, foreign stocks are very attractive to us. We own a bunch of those. We also own some good industries that also would benefit in that world, and we're not overweight some of the things that have, that the US market is focused on, I think that's a good thing.

And we're out of the duration market. For all intents and purposes. We have plenty of gold. I guess if gold, we didn't mention gold and silver, which were the talk of the town last week, or have all come back off their highs. I imagine we could add gold if we were to see a weakness. The basic picture is us long-term assets, stocks and bonds are just not very attractive relative to other things you can hold.

**Nick:** Great. And if anything happens that we think is really important in NFP, we, however unlikely that happens, we'll send you an email. It's as simple as that. Otherwise, as steady as she goes for the first week of January,

**Andy:** absolutely. Have a good 2026. We'll be here.

**Nick:** Yep, and happy New Year once again. Bye.

