

2 GRAY BEARDS | Week 165 Executive Summary

February 28, 2026 | Market Commentary & Portfolio Positioning

MACRO BACKDROP

- Economic data remains firm — no acceleration in unemployment, no visible macro deterioration in hard numbers.
- The bond market is the notable outlier. The 10-year broke below 4%, a meaningful level. Andy interprets this as the market pricing a growth slowdown, though Nick attributes much of the move to a lack of sellers ahead of a geopolitically uncertain weekend.
- Curve structure: 2s/5s flattening; 5s/30s continuing to steepen slowly. Fed on pause — uncertain about neutral rate.
- A 0.8% month-over-month PPI print alongside a 10-basis-point bond rally is historically anomalous — underscoring that markets are not trading data right now.

EQUITY MARKET

- Extreme sector divergence: Hardware (DRAM, Taiwan Semi), Industrials — outperforming. Software, Mag Seven — getting crushed.
- AI disruption fear is the dominant sentiment driver. Financials sold off Friday on concerns about employment and mortgage default risk.
- Liquidity is thin when sectors are under attack — options markets essentially freeze. Nick noted near-zero fill quality on NVIDIA-adjacent puts.
- Weekend futures: NDX ~250 pts lower, DJIA ~200 pts lower, Gold +\$170. Both hosts view these as illiquid signals, not reliable pricing.

IRAN — GEOPOLITICAL SCENARIOS

- Scenario A: Trump signals ceasefire/talks Sunday night → market stabilizes on Monday open.
- Scenario B: Conflict continues into the week, talks announced mid-week → deeper but contained drawdown.
- Scenario C: No resolution this week → ongoing war narrative, oil higher, stocks lower, gold higher.
- Nick's historical read: When the US goes to war, buy the dip. Every prior instance has recovered within days to weeks.
- Base case: Market digests the shock by midday Monday; 2-3 week recovery of ~99% of any drawdown.

PORTFOLIO ACTIONS

- Lower leg of put spread expired worthless Friday — now long naked puts at approximately Monday's projected open level.
- Consensus: Trim hedges into the selloff, not hold them. Puts work best when you sell them while they're working and the rest of the book is bleeding.
- Take partial profits in gold and commodities longs given the geopolitical premium already priced in.
- Longer-term positioning favored: European/global equities, EM, Industrials, Defense over US tech and bonds.
- Rebalancing to occur Monday; alert emails will go out if actionable opportunities emerge intraday.

Next week's data calendar: ISM, ADP, Challenger, NFP, Retail Sales — likely to be ignored in favor of Iran headlines.