2 GRAY BEARDS

Week 165 — Full Summary

February 28, 2026

OVERVIEW

Nick and Andy open with a frank acknowledgment of the week's dominant theme: the US military strike on Iran. Recording on Saturday morning with bombs already flying, the conversation covers the macro and market backdrop, three geopolitical scenarios for the week ahead, portfolio positioning implications, and a preview of next week's data calendar. The tone is characteristically direct — these are two experienced market practitioners making real-time calls, not hedging into abstraction.

1. MACROECONOMIC BACKDROP

Economy: No visible deterioration

Nick opens by noting that despite widespread commentary about AI disruption risks, credit concerns, and blog-driven fear, the actual economic data continues to print fine. Unemployment is not accelerating. There is no evidence in the hard numbers of the macro weakness that markets appear to be pricing in some corners.

> **Nick:** *"Whatever some bloggers might write or might not write and whatever the fears of AI and credit might be, you just don't see it in any of the numbers."*

Bond Market: The key divergence

The bond market is the most significant anomaly. Andy notes he had expected the curve to steepen, but instead it has flattened — specifically the 2s/5s segment. Nick corrects the characterization: 5s/30s are still steepening, just slowly. The focal point for both is the 10-year note.

The 10-year Treasury broke below 4%, which Andy frames as a significant signal. The 10-year is where mortgage rates, corporate financing, and government funding costs converge — it is the economy's bellwether rate. A sub-4% print, in the context of still-elevated inflation data, is anomalous.

> **Andy:** *"The tens broke 4% and that's different. That's new to be below 4%. And it's saying something."*

What drives the 10-year? Andy's framework

Andy articulates a three-factor model for 10-year rates:

- Growth expectations — still running at 3%+ real, close to 6% nominal if the economy flatlines from here
- Inflation expectations — PPI came in at +0.8% month-over-month, a significant print that should be pushing yields higher, not lower
- Term premium — supply/demand dynamics, volatility, investor preferences. Andy says the supply overhang is unlike anything he's seen, and it isn't improving

The paradox: all three factors suggest yields should be higher, yet they're falling. This makes the bond market's signal harder to interpret as a clean growth-slowdown call.

Nick's alternative read on bonds

Nick pushes back on reading too much into the bond move. His view: this is primarily a lack of sellers heading into a geopolitically uncertain weekend, not a fundamental repricing of growth. He notes the auctions went well given how far yields had already moved, and that the bond market has a long history of false recession signals.

> **Nick:** *"The bond market has anticipated 50 of the last three recessions."*

His plan is to sell bonds on Monday's expected bounce — treating the move as a tactical opportunity rather than a structural signal.

Data vs. market: A broken relationship

Both hosts agree the data calendar is essentially irrelevant right now. The 0.8% MoM PPI print alongside a 10-basis-point bond rally is historically impossible by conventional logic. Markets are not trading on data — they are trading on sentiment, uncertainty, and geopolitical headlines.

Contributing factors to data distortion: the government shutdown still affecting data collection quality, tariff-related bullwhip effects in supply chains, and general uncertainty about the neutral rate keeping the Fed sidelined.

2. EQUITY MARKET

A tale of extreme divergence

Both hosts describe the equity market as deeply confused — not bearish across the board, but fractured in a way that makes it difficult to read a coherent macro signal. The divergences are operating across two dimensions: by sector and by geography.

Winners

- Hardware / Semiconductors: DRAM manufacturers, Taiwan Semiconductor — doing extremely well
- NVIDIA: Sold off but recovered
- Industrials: Strong across the board
- Defense: Beneficiary of geopolitical tension
- European and global ex-US equities: Outperforming US counterparts
- Emerging markets: Holding up relatively well

Losers

- Software / SaaS: Crushed — down 20%+ in some cases within a week
- Mag Seven (broadly): Selling off
- Financials: Sold off sharply on Friday on AI-disruption employment fears

The AI fear premium

Nick identifies the core driver of equity weakness as not a macro deterioration story but an AI disruption uncertainty premium. No one knows which sector gets repriced next as AI threatens to eliminate labor categories. The software sector's collapse served as a template, and now every sector is asking whether it's next.

> **Nick:** *"No one knows which sector is next for the chop via AI fears, and I think that is depressing equity valuations as a whole."*

The financial sector saw significant Friday selling based on fear that widespread unemployment from AI could impair mortgage-paying ability and consumer credit — a second-order effect that hasn't shown up in data yet but is being priced preemptively.

Liquidity conditions

Options market liquidity is extremely poor when a sector is under attack. Nick describes attempting to buy puts in NVIDIA-adjacent names and getting virtually nothing done — a few lots and the market disappears. This illiquidity amplifies moves and makes it harder to hedge efficiently.

Weekend futures pricing

As of Saturday morning, illiquid weekend/betting markets are pricing: NDX ~250 points lower, DJIA ~200 points lower, Gold +$170, implying an S&P 500 open approximately 120 points lower. Nick views the S&P implied move as excessive, though he acknowledges it is what it is until New York hours open liquidity.

3. IRAN — GEOPOLITICAL SCENARIOS & MARKET IMPLICATIONS

Context

Recording Saturday morning with active US/Israeli military strikes on Iran in progress, casualties on both sides, and no diplomatic channel open. The question is entirely about Trump's next move, not Iran's — both hosts treat Iran's response as essentially irrelevant to the market outcome compared to what Trump signals.

The three scenarios (Andy's framework)

Scenario A — Early resolution (Sunday night)

Trump signals a ceasefire or encourages talks before Sunday night's 6pm ET futures open. Market reaction: sharp V-shaped recovery, risk assets bounce hard on Monday open. Probability: not huge by Sunday, improving into Monday/Tuesday.

Scenario B — Mid-week resolution

Conflict continues into the week, talks announced sometime before end of week. Market digests a deeper initial drawdown before recovering. This is the messier path but still resolves within the week's trading.

Scenario C — No resolution this week

Active, escalating conflict carries into next weekend with no diplomatic breakthrough. Bad for stocks, good for gold, good for oil. This is the scenario that warrants meaningful portfolio adjustment.

Nick's historical trading rule: Buy when the US goes to war

Nick articulates a consistent rule he has traded by across multiple conflicts: when the US goes to war, buy and at minimum take off protection. He claims every time he has done this, he has made money — the timeline varies (days, weeks, a month), but the direction has been consistent.

> **Nick:** *"History tells us that when the US goes to war, you bet on the US."*

Iran-specific dynamics

Both hosts discuss longer-term scenarios beyond the week's trading:

- Regime change: Andy raises the possibility of US success resulting in Iran democratizing. Nick views the probability of direct US toppling of the regime as low.
- Internal revolt: Nick thinks it more likely that a sufficiently weakened regime triggers an internal Iranian uprising — the population rising once they're no longer afraid of the government. He gives this better odds than a direct US-imposed regime change.
- Nuclear red line: Nick believes Trump's stated position is clear — Iran cannot enrich uranium to weapons grade, full stop. If Iran meets that condition, they'll be so internally weakened it amounts to the same outcome.
- Base case: US win of some kind within 2-3 weeks, whether that's Iran returning to the negotiating table and surrendering nuclear enrichment, or regime collapse from within.

Broader strategic implications

Nick notes that eliminating Iran as a functioning adversary weakens both China and Russia, strengthening US geopolitical positioning. Andy agrees that a genuine US success — meaning a democratic Iran — would be a significant geopolitical positive, though he frames mutual de-escalation as the more likely near-term outcome.

Monday morning mechanics

Nick expects the bulk of the market's move to be complete by 11-12pm ET Monday. His reasoning: institutional investors who need to reposition must do so during New York hours — they can't execute real size in the overnight session. So whatever the market is going to do, it does it in the first half of Monday's session.

4. PORTFOLIO POSITIONING & ACTIONS

Current book going into the weekend

- Long significant gold position
- Long commodities
- Long some puts on US equities (put spread — lower leg expired worthless Friday, now effectively long naked puts near Monday's projected open)
- Long European/global equities, EM, Industrials, Defense
- Underweight US tech / Mag Seven

The put spread situation

The lower leg of their put spread expired worthless on Friday, which Nick and Andy characterize as lucky — the puts they now hold are roughly at-the-money relative to where the market is projected to open Monday. This is the ideal position: protection that's now in the money or near it, ready to be sold into the selloff.

Core action: Sell the hedges into the fear

Andy articulates a principle he considers a classic mistake to avoid: holding puts while they're working and the rest of the portfolio is bleeding. The reason you bought the puts has now materialized — that is exactly when to sell them, not hold them hoping for more.

> **Andy:** *"The biggest problem people who buy puts for protection on a long only portfolio make is they hold onto them for dear life when they should be getting rid of it — because they're working and the rest of their portfolio is not. Which is precisely when you should be getting rid of it."*

Additional trims

- Gold: Take partial profits — significant geopolitical premium already priced in
- Commodities longs: Trim into strength
- Note: Andy is open to scenario C playing out and doesn't dismiss the possibility of needing to re-establish protection later in the week

Longer-term structural positioning

Both hosts remain convicted on the longer-term rotation away from US tech and toward international/industrial exposure. The week's noise doesn't change those trends — if anything, it may provide better entry points. Andy notes that for longer-term investors, the trends are straightforward even if the near-term is chaotic.

Monday rebalancing

Nick plans to go through specific rebalancing actions for Monday. Alert emails will go out immediately if particularly actionable opportunities emerge intraday.

5. NEXT WEEK'S DATA CALENDAR

A full slate of employment and consumption data is due, including ISM, ADP, Challenger job cuts, NFP, and Retail Sales. Both hosts agree this data will be almost entirely ignored by markets.

Two reasons: First, it is backward-looking and unlikely to show anything new relative to the established trend. Second, and more importantly, markets are in headline-driven mode — every tick will be about Iran developments, not economic prints. Nick summarizes the expected trading pattern: something good hits, market rallies 20 points; something bad hits, market falls 50. Asymmetric, reactive, noise-driven.

> **Nick:** *"It's gonna be ignored. It's all gonna be around headlines — something gets hit, it goes up 20 points, something gets hit the other way, it goes down 50 points."*

KEY TAKEAWAYS

- The economy is fine; the bond market's signal is ambiguous — possibly a growth scare, possibly a geopolitical safe-haven bid. Don't over-read it until the data follows.
- Iran creates three discrete scenarios. Trade the scenario, not the fear. Nick's rule: when the US goes to war, buy.
- Sell puts into the selloff — that's what they're for. Don't hold protection when it's working.
- Trim gold and commodities; the geopolitical premium is now priced.
- Longer-term: stay long international equities, industrials, defense. Avoid US tech and bonds until the picture clarifies.
- Data this week is noise. Watch headlines only.