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Nick: Hello. Good morning. Today is the what? The 28th of November or February and the month is over. And thanks to Mr. Trump, we don't have to worry about the economy, do we? Andy? Not today, Nick. So what do we do? What do we say? The economy's fine, right? All the data that we keep on getting. Is fine. There is no acceleration in unemployment and 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.

Are we afraid, just like the market seems to be let's put Iran to the side, but are we afraid of a macro event? Where the economy seriously weakens because that is what bonds are actually saying.

Andy: Yeah, I think you have to look at, you have to take the bond market seriously. I expected the bond market to, to steepen it's flattened.

What, and I think more to the point, the two year note isn't doing anything. 'cause the Fed is in transition. Uncertain about what the neutral rate is and so is essentially pausing for the moment. But the long end of the bond market is definitely strong. And not only is it strong in the us it's strong everywhere else.

Nick: Yeah. Let me, lemme just correct you there. It's not the long end. It's twos, fives that are flattening and fives thirties are actually continuing to steepen, but a very slow rate.

Andy: Yeah. Yeah, I agree. I'm not gonna, I the 30 year is not what I think of. When I think of macro. I think of 10 year.

So many things that are essential to the economy from mortgages to the government financing and the corporate financing really rest in that sort of 10 year note space. So that's what I focus on. And the tens broke 4% and that's, that's different. That's a, that's new to be below 4%.

And it's saying something. And you know my, when I look at 10 year notes and I think about macro, I think that 10 year notes are driven by growth, expectations changing inflation, expectations changing and term premium changing. Now, the last one, term premium is where supply and demand volatility, investor preferences.

Issuance supply is and savor demand are all not looking good to me. If you though, though measured term premium estimated model term premiums are falling a little bit in the bond market it, to me, it's. Curious that one would think that the economy is doing something that would result in a shift from supply of bonds to demand of bonds.

There is a supply of bonds overhang that the, like I've never seen before and that isn't changing. So it brings me to growth. Infl expectations or inflation expectations, and. Based on the d backward looking data, there's no, there's, if you ex, if you, even if you say that the economy doesn't change much, it's just flat lines from here, you're talking about three plus percent real growth and close to 6% nominal growth.

We got a huge inflation print recently, PPI. So you know, the bond market's saying something, the equity market is, to me extremely confused. You've seen sector divergences and international divergences that are truly amazing. You look at hardware obviously though Nvidia came back.

But you look at big companies that make DRAM globally, their and chips in general like Taiwan Semi, those stocks are doing extremely well. You look at Industrials, which is a completely different thing. They're doing extremely well. And you look at tech broadly software and Mag seven, and they're getting crushed.

So it's a very mixed picture to me from what the equity market's saying. But the bond market's shouting now, they could be wrong.

Nick: Yeah.

Andy: Bond market could be wrong. The but it's shooting a slowing in the economy.

Nick: I think in the bonds it's more a lack of sellers. The auctions went great given where the yields were and how much the they had already moved.

But I think there's the bond market tends to anticipate these geopolitical events. And of course on Monday's gonna be substantially higher, which I think is a sell, I'll certainly sell for Alpha, but that's, I wouldn't take what the bond market is doing too seriously until the macro picture really changes in the data.

We've, the bond market has anticipated 50 of the last three recessions, so I'm really not, not worried by what the bond market does ahead of a weekend where

a lot of people thought that, Trump might attack Iran and even if they didn't think it was gonna happen, didn't know if it was gonna happen this week or next week or the week after they knew he was coming.

So it's a lack of sellers, I would've thought, in the bond market. So I'm not too worried about that. What is certain is that no one knows. Which sector is next for the chop via AI fears, and I think that is depressing. Equity valuations as a whole. We saw some big moves in the financial sector on Friday because now they're afraid that everyone's gonna be unemployed and nobody's gonna be able to pay their mortgage.

Credit is, teetering a little bit. So I think the, these are all natural worries because you just don't know. It's fear of the unknown and people have seen what happened to the software sector where it just got crushed 20% in a week. And they are, they're fearful that the same is going to happen to whatever sector they're invested in.

And I don't think liquidity is great when a sector gets attacked. There's just zero liquidity. I noticed I was trying to buy some puts in the in, in, in the NVIDIA sector, in the puts and shovels. Nothing, so you get a few lots done and it's gone. So that's what's going on, I think.

Now, what do you think is gonna happen next week because of Iran?

Andy: Who knows Mostly, but I think it

Nick: we know where the market is now because, gold is 170 higher. The the qqs or rather the NDX is 250 points lower. The the DAO is 200 points lower, which would give you an s and p somewhere around 120 lower, which to me is ridiculous, but it is what it is.

Andy: Yeah, those are illiquid weekend and betting markets, but that, those would make sense to me to if we get, so let's talk about the scenarios. There are three, the way I look at this for. Viewers who are thinking week to week, not long term not. And most of the time we wanna think long term.

We'll come back, we can come back to that if you'd like. But week to week, what do we got? Here we are on Saturday morning. Bombs are flying. They're casualties are being taken on both sides. And there's no talking. So what has happened is typically. Sunday, we have a terrible market reaction. And then sometime before Monday's opening, often Sunday night Trump will send out something that says something.

And so in this case, to me, the scenarios are this. Sunday night we get a a, we've done what we're doing. We're now encouraging talks. That's scenario A. Scenario B is they're not done yet and so they keep doing what they're doing and scenario B is at some point, maybe later this week, they decide that they've done enough and they're gonna talk.

They announced talks. Now that doesn't forget what Iran does. Iran will or won't. It's, that's irrelevant. What Trump says is what he wants, which is he'll either taco on Sunday taco during the week, or the third scenario is won't taco at all this week, and we'll be talking a month, a week from now next Saturday about an ongoing war.

And now it's the job. If those are really the only three scenarios, which I think they have to be there's either talk immediately before the opening, talk during the week, or not talk until and then we start up next week. I think those are the only possible outcomes. Maybe I'm wrong, but

how do you trade that? If we next Saturday have had an ongoing war? To me that's pretty bad for stocks, pretty good for gold, pretty good for oil. And so now the question is how much? And to me. It seems logical to at least consider tweaking your positions based on the market moves that are at least predicted in these illiquid markets.

So what I wanna, again, we could be wrong. A, a week from now, we're talking again and scenario C has played out and we're still at war. It's active, it's getting uglier. Oil could be quite a bit higher than it is today. Stocks could be quite a bit lower than they are today, but you have to decide whether you wanna do anything.

And to me, given that we're long, a lot of gold, long, a lot of commodities long, some puts on stocks, it's time to take some profits on those things.

Nick: Yeah, my experience is that whenever the US goes to war, it's time to buy and all at the very least, take off protection. Every time I've done it, I've made money.

Whether it's taken a day or a week or a month for a longer term portfolio, that really shouldn't matter all that much. As you said, we were lucky in so far as our. The lower leg of our put spread expired on Friday worthless. So now we are actually long puts roughly where the market is projected to open.

We had the protection for a reason. The reason seems to have. Played out. So when that happens, what's the best thing to do? Is get rid of the get rid of the hedge?

Andy: Without a doubt. I think 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, when that is because they're working and the rest of their portfolio is not, which is precisely when you should be getting rid of it. So yeah, I think that's clear. Now that said, do you think there were, let's just talk about this. Do you think there is, and this is where I don't know at all, do you think there is a, those three scenarios I laid out. Do you think there's a probability that we get a complete reversal by either Iran being completely capitulating and said, saying, please, let's talk. Or Trump saying We've done enough, we still want to deal by Sunday.

Nick: I think by Sunday the, I mean by Sunday, 6:00 PM when the when the market's open Eastern time, I think the odds are not huge.

They get better with time, so into Monday or Tuesday. Iran is a humongous country. It's big. They have hidden all sorts of stuff everywhere, so it's, I don't think they can take out Iran in 24 hours, 48 hours. I think it's gonna take longer than that, but I think that the market reaction is going to happen in the.

Probably by the, I dunno, by 11, 12 o'clock on the Monday. Because a lot of people need to trade during, during New York hours and they have to reposition themselves during New York hours and they can't do that during the night session and stuff like that. So I anticipate what the market is going to do to be.

Over by midday on Monday. I think the odds are good for that. Now, as you said, the longer this goes on without any kind of talks and more casualties being taken by, especially by the US side or the Israeli side, then you know the market starts cascading, doing the next leg lower, but.

Whatever happens, I think that in two or three weeks time, this has resolved itself and the market has regained 99% of the fall, that kind of thing. So how deep the V is, I don't know. Nobody knows, but the odds favor cutting back on hedges. Cutting back on gold because nothing will have happened really at the end of the day.

In fact, it should be a, an easy US win. And therefore, one of the states, which is the inverted commas, axis of evil, has gone That weakens China, that weakens Russia and empowers the us.

Andy: Yeah. Listen I think you have to. Give credit where it's due, if this is a so to me the most logical thing is that both players back away and nothing has happened versus the thing that I think you're hinting at, which is.

Capitulation and regime change, meaning a US success. Like a US success is at some level a pretty big deal. If we get rid of the regime and there are free and fair elections in Iran, that's a pretty

Nick: right,

Andy: good scenario

Nick: I think. I think the odds of the US getting rid of the regime are very low.

It's not gonna happen, but the odds. But the odds of the Iranian people. After the US and Israel have weakened the regime to such an extent that they're no longer afraid of them, I think are a lot better.

Andy: But you gotta assume that's not happening this week.

Nick: You have to assume that's gonna take longer.

You're quite right. You, those are the odds, but whatever the odds are, I think that in two weeks time, we are talking about a. Us win of some sort, whether it's the Iranian people have topple the regime, or these guys have been weakened so much that they go back to the Geneva negotiating table and give up their nuclear weapons.

So I think Trump was extremely clear. You will not ever be allowed to enrich uranium to weapons grade. You have to stop that end of story. I think that's his red line. If they meet the red line, great. But if they do, they'll be so weakened internally that they might as well commit suicide. So I it's difficult to see that, it, the whole thing is going to be a bit of a mess for a few days, but I think history tells us that when the US goes to war, you bet on the US.

Okay. Otherwise next week we have actually a lot of data really from the employment side and retail sales. So we got the I-S-M-A-D-P, challenger, NFP

retail sales. I, that data is gonna be ignored by the market, isn't it? Because A, it's backward looking. B, it's likely to show absolutely nothing new.

Andy: Yeah, the, again, that brings back to the question pre-discussion on Iran, which is the bond market sniffing something out. And it's ignoring that. Listen, you can't have a 0.8% month over month PPI and 10 year bonds rally 10 basis points. That does not ever happen.

Nick: But I told you would happen. I tweeted it.

Andy: That's a good guess, but it wasn't a guess. I saw what mood the market was in, right? But that's a different point, which is. The economy is no longer the markets it, I don't think it ever is. Yeah. But it's clear if you are trading bonds because of being an inflation Easter that thinks inflation is going to the moon or a and or a run hot growth guy.

You've been fucked being long being short bonds.

Nick: Yeah, absolutely.

Andy: The market is not. Trading based on the data. So yeah, I don't think, I don't put, now that's not, doesn't always happen. I think it has a lot to do with a variety of uncertainties that we're experiencing and the shutdown still mucking up the data collection and a bunch of tariff related, bull whip effects, all manner of things are making this data worthless, but it's particularly worthless for trading markets.

Nick: Yeah. So 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.

Yeah. It is what it is.

Andy: Yeah. Now you look at our portfolio, it's so there's gonna be some, the US stocks and bonds are gonna move around a lot on all this own stuff that's going up. Europeans global, rest of world stocks, emerging market stocks industrials defense. You don't need to bother with this other stuff right now.

And I think we're well positioned for that reason. And. The US market's gonna be a headline and maybe some provide some opportunities on FRI on Monday morning, but terms of longer term investing, the trends are pretty straightforward.

Nick: Yeah. Great. I will now go through what we need to do to rebalance the portfolio on Monday, and otherwise it's email time.

If we spot something that is. Particularly juicy. We'll send out an email straight away. All right, have a good one, Nick. Bye-bye.

