

# 2 Gray Beards — Week 166

## Full Summary

March 7, 2026 | Andy & Nick

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### Geopolitical Context

The conversation opens with both Andy and Nick acknowledging that the dominant market driver is the war in Iran. Both are explicit that they have no edge on predicting the geopolitical outcome—neither do the actual players involved, who will have to adjust to changes as they occur. Nick frames it clearly: anything could happen, so the focus should be on playing the odds rather than predicting headlines. The key question Andy poses is whether the US wins “nice or ugly” and whether it takes a week or months. Neither has an answer, and neither pretends to.

### Oil & Supply Chain Disruption

The war has severely disrupted oil supply chains. Front-month crude nearly doubled in a month, moving from \$56 to the low \$90s. Longer-dated oil contracts are up 16–18%—not as extreme as the front month, but still substantial and reflecting genuine uncertainty about where oil settles when the dust clears. Andy notes that the longer-dated move is the more telling one: it implies the market doesn’t believe this resolves quickly or cleanly. The oil spike is central to the rest of the macro picture—it feeds into inflation fears, the yield curve, the Fed’s calculus, and implied volatility across asset classes.

### Bonds, Yields & the Curve

The traditional risk-off playbook—buy bonds and gold—failed this week. Both rallied on Monday’s opening and then gave it all back. Gold ended the week only slightly lower, but bonds fared much worse. 10-year yields moved from 3.95% to 4.13% over the week, and were even higher at one point on Friday morning before pulling back. Two-year notes traded a wide, volatile range between 3.40% and 3.63%.

The yield curve is steepening aggressively, driven by the oil spike and the market’s fear of stagflation. Nick’s key insight is about the Fed’s mandate: this is a supply-side inflation shock, and the Fed is supposed to look through supply shocks. The bond market won’t look through it—hence the long-end selloff—but the Fed still could cut if employment data deteriorates, which would steepen the curve further via the short end rallying while the long end stays pinned.

Both Andy and Nick favor the short end of the curve, specifically 1–5 year maturities. Their reasoning differs slightly: Andy has been skeptical of the reacceleration narrative and believes it’s more than fully priced, so he expects cuts. Nick frames it more tactically—whenever the 2-year note reaches a level where funding is neutral (you don’t lose money carrying it), you buy it. Both agree emphatically: do not extend duration. The long end carries 30–50bps of downside risk, while the short end exposes you to maybe 5–10bps of loss. The asymmetry is clear.

### Nonfarm Payrolls: The Negative Print

Friday delivered the first negative NFP that Andy can remember—a direct rejection of the prevailing narrative that the economy was reaccelerating, the job market was strong, and the Fed would never cut. Coming into Friday, that was the consensus view for most market participants.

Andy is careful not to over-extrapolate. One print doesn't confirm a recession. The data is noisy, still catching up from the disruption of the government shutdown, and the economy is dealing with more uncertainty than usual. Importantly, the negative NFP has **not** been confirmed by any other labor market indicator—weekly claims, ADP, Challenger layoffs, and GDP nowcasts have not turned negative. The question going forward is whether the weakness spreads into these other measures. If it does, Andy believes the Fed will cut. If it doesn't, the single print is just noise.

## Fed Expectations

Market pricing for a March cut has swung violently—from approximately 100% probability just weeks ago to nearly 0% now. Andy frames the Fed question simply: they're not going to hike, and they're probably not going to cut as much as previously priced. The Fed is in a bind between a supply-driven inflation shock (which argues for patience) and potentially deteriorating employment (which argues for easing). Nick adds that the Fed's institutional mandate is to look through supply shocks, which means the employment side of the dual mandate could dominate if the data confirms the NFP signal.

## Equities

The S&P 500 was down about 1.75% for the week—modest relative to the magnitude of the oil move and the vol spike. The selloff was concentrated in the most crowded trades: Korean semiconductors (a significant EEM weight), emerging markets broadly, and anything non-dollar. Software stocks bucked the trend, bouncing and recovering sharply while the rest of the market didn't.

Both Andy and Nick articulate a “double whammy” problem for equities. In a strong economy, the Fed won't cut—removing a key equity catalyst. If the Fed does cut, it will be because the data has turned sharply negative—which is also bad for stocks. And because the long end isn't rallying (stagflation fears keep it pinned), even a Fed cut wouldn't provide the full financial conditions easing that typically supports equity multiples.

Neither wants to buy equities at current levels. Andy is interested in adding exposure 3–5% lower. Nick believes there could easily be another significant leg down on negative geopolitical headlines, and that's when to act—deploy cash at panic prices. Andy observes that the prevailing market psychology is FOMO on the bullish headline rather than fear of the downside. He notes this was true between May and October, but since October, missing out on good news hasn't actually cost anything. Nick adds: if you're worried about missing the upside, calls are cheap—just buy them.

## Implied Volatility & Options Positioning

VIX futures closed at their weekly highs around 26, up six vol points. Andy highlights an important structural observation: the elevated vol is not being driven by aggressive put buying (as you'd typically see in a crisis). Instead, it's being driven by a *lack of put supply*—dealers are not selling puts. This creates a different dynamic. Historically, heavy put demand tends to resolve bullishly. A supply withdrawal is harder to interpret and may be more persistent.

Out-of-the-money puts are significantly more bid than out-of-the-money calls—the skew is historically steep. This informs the options strategy discussion. The portfolio's existing puts expire on March 13 (not the 18th). They need to be rolled or replaced. Nick initially suggests selling calls rather than buying expensive puts at 26 vol. Andy pushes back: he doesn't favor selling upside calls because they're actually quite cheap (not cheap enough for a stock

replacement strategy, but too cheap to be worth selling). He favors **put spreads** over outright puts—the steep skew makes the spread structure more cost-effective. The final decision will be made Tuesday when Nick is at his desk and can review exact pricing.

## Gold & Commodities

Gold was sold earlier at good prices. Some commodity exposure was scaled back, though not at great prices given oil's surge—but losses were minimal. Nick is comfortable with current positioning and doesn't see this as a "buy gold" moment given how gold behaved this week (the risk-off bid failed). Neither sees reason to add commodity exposure or extend duration before additional data confirms the economic picture is actually deteriorating.

## Summary of Positions & Action Items

**Current stance:** Long the short end of the curve (1–5Y). Not adding equity exposure at current levels. Holding cash for deployment at significantly lower prices. Gold and commodity exposure has been trimmed. Puts expiring March 13 need to be addressed.

**Immediate action:** No trades before Tuesday. Nick will review pricing Tuesday morning and send a note to members with specific recommendations for replacing the expiring puts—likely put spreads per Andy's preference, with exact strikes and structure TBD based on where markets open.

**Overall posture:** Patient. Maintain current delta. The opportunity to get aggressive will come on a panic-driven dip triggered by negative geopolitical headlines—and they have the cash and positioning to capitalize when it arrives.

