

2 Gray Beards — Week 167

Executive Summary | March 14, 2022

MASTER VARIABLE

All markets are one trade right now: oil. Oil up = bonds down, stocks down, dollar up, grains up. This correlation dominates all other signals for the week ahead and overrides every other macro consideration until resolved.

MACRO BACKDROP

- Sticky high energy & food prices crowd out non-essential spending → demand destruction
- **Fiscal:** Fiscal stimulus fading
- OBBB-related tax tailwinds ending, not reversing
- **Fed:** Fed paralyzed — won't cut (inflation unfixed) and can't hike into a supply shock
- **Labor:** Labor flat + AI layoffs (Meta -20%, DOGE pressure) adding incremental drag

Net read: stagflationary. Bad for equities, directionally better for bonds — but a medium-term view, not a near-term trade.

FOMC (THIS WEEK)

- **Base case:** 80% — No action, no headlines. Powell stays neutral, treats supply shock as transitory
- **Dovish:** 10% — Yield curve steepens sharply. Short end rallies only marginally. Long bonds sell off. Any equity pop gets faded
- **Hawkish / hike mention:** 10% — Short end destroyed. Long bonds paradoxically become a buy (recession guarantee). Major flattening, equities down hard

Action: monitor in real time. Alert email goes out immediately if a tail scenario fires.

POSITIONING

- No new equity longs — sell rallies, sell calls against existing holdings (vol is bid, collect it)
- No duration — long bonds moving in lockstep with equities, providing zero hedge benefit
- Duration trigger: 30yr real ~3.00–3.25% / 30yr nominal ~5.25% (~25bp away). At that level recession odds force a reassessment and bonds become genuine equity insurance

CEASEFIRE / WAR RESOLUTION PLAYBOOK

- Equities spike 3%+ on the headline
- Do not chase — sell calls into the rally
- Post-war market is range-bound: inflation fear gives way to growth fear. No new highs. Becomes a sector story, not an index story

ECB

Hawkish (single-sided inflation mandate). Primary effect is narrowing US-Europe rate differentials — net negative for the dollar over the course of the year. DXY move from 96→100 is war premium; not expected to sustain.

BOTTOM LINE

Watch oil. Fade rallies. Sell calls. Wait for 30yr real ~3.25% or a ceasefire before changing posture. Neither equities nor duration are cheap enough to buy.