

2 Gray Beards — Week 169

March 28, 2025 | Nick & Andy Constan

Geopolitics: Iran

Both hosts agree: the gap between US demands (permanent end to Iranian influence) and Iranian terms (sovereignty, Strait of Hormuz control, no military reduction) is unbridgeable. Current talks are a delay tactic. Base case is further escalation with Iran eventually capitulating — but it takes time. A surprise Iranian capitulation is a tail scenario worth being positioned for given the V-recovery it would trigger.

Macro Outlook

- Oil \$20–40/barrel above year-ago levels = 50–100bps GDP drag on a 2–3% real growth world — slowdown is the base case
- Food and fertilizer prices follow oil; these are necessities, so the hit is real and broad
- Massive new issuance — US war financing, Gulf State asset sales, global rearmament — piling onto a 6%+ deficit backdrop keeps real yields elevated and financial conditions tight
- Friday: equities down, gold up, short-end bid — first real market pricing of recession risk. Slowdown = base; recession = lower odds but no longer negligible

Rates

- Bad bond auctions last week with large tails — expected given the backdrop
- 30-year real yields approaching 2.78–2.80%; watch for 3% as the trigger to add duration

Equities

- S&P at ~6,375, roughly 600 points off all-time highs. Bear case math: \$310 earnings × 18x PE = 5,600 realistic downside; 4,500 is a tail, not a base
- Options pricing ~25% chance of SPX 5,000 by year-end — Andy considers this extreme
- Don't sell here if you weren't selling at 6,900. Target accumulation zone: 6,000–6,100
- Rallies likely but won't stick — earnings headwinds and higher real rates prevent sustained upside

Near-Term Setup

- Quarter-end options expiry: expect weak open Monday, technical recovery to ~6,475 by Tuesday close — a large Monday dip is a potential long entry
- NFP releases Good Friday (April 4) into near-zero liquidity — bond markets closed, futures open; watch but don't trade around it
- Portfolio options expire March 31 — review and roll as needed ahead of that date

Positioning Summary

- Underweight risk until the 6,000–6,100 S&P zone; don't chase relief rallies — they're unlikely to hold
- Watch 30-year real rates: 3% is the level to start adding duration meaningfully
- Keep powder dry for the Iran tail: if capitulation comes, act fast — the recovery would be sharp and swift
- Expect a grinding bottom with false starts and volatility, not a clean V — selling the bottom is the primary risk to avoid