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Nick: Good morning, and today is the 21st of March and we've had a really exciting week in terms of price movements. So what's going on? Is it fair to say that it's all about real yields at the moment because those have spiked last week and when real. Yield spike. You get naturally nominal yields going up.

You get the effect on equities and you get effect on pressure. Pre precious metals, which is exactly what we got last week. Everything got slammed and there is nowhere to hide. You can't hide in gold. You can't hide in equities. You can't hide in nominal bonds. The only thing you can hide in, is oil or a little bit in Bitcoin because that's not going down, but it's not going up either.

We have to get right where yield real yields are going to go. So let's summarize what the central bank situation is. We had the FOMC, we had the ECB, and we had the BOE. The FOMC basically is saying that they don't know where things are gonna go. They would like to be able to look through the obvious inflationary impact.

That oil prices are having. The ECB is saying that their base case is that they're going to have to hike twice. Let's remember that they only have a one-sided mandate. Their only mandate is inflation, not employment. And the BOV is all over the place and they think that they might have to hike even though they want to cut, so they just haven't got a clue.

But what is that doing to to prices? Now we are discounting hikes. In the US we are discounting two hikes. In the Euro area, and we just haven't got a clue what's happening in Britain. It's it could be a lot of hikes or it will probably be cuts. So what we have to decide is. Where are real yields going to go from here?

And the only way to do that is to guess where the oil price is going to be not in the next two weeks, and not at the front, but at the back of the curve towards year end, or maybe even into 2027, and. Take a view on where those prices are going to be, and that is going to tell us what real yields are likely to be, and therefore whether current prices or near current prices for equities and gold are a buy.

Because I don't think that we want to buy bonds, nominal bonds unless we go into recession. We are not going to go into recession if this is very temporary. Andy, is that fair? And what do you think about it?

Andy: Yeah, I think that we have to just think about what drives real yields and there's two things that drive yield real yields.

That are at play lately. And the first is that the central banks have essentially said that they are going to at least pause for a long time, if not start to hike. And that obviously causes the entire yield curve to rise, and that includes. Real yields across the entire curve. The second aspect that drives real yields is risk and the willingness for investors to lever up or be forced to deleverage and, if you look at the way the yield curve acted last week, two year yields rose, I don't know, call it 18 basis points from the prior week's close and 30 year bonds rallied, rose like three, four basis points, 10 years, 10 basis points. So the. Very short term impact has been entirely the central banks flipping from what had been presumed to be a cutting cycle to a pause slash hiking cycle.

But asset prices have, and long term, real yields are more impacted by leveraging up and de-levering of the financial system, which is more impacted by risk and every metric of risk. Is higher. And look at the volatility indices. You look at the skew of the volatility markets you look at, and this is across assets rates.

Volatility has skyrocketed. And so that just says that people are looking at their portfolios. Had levered up quite a bit. Most portfolios were very levered and are in the midst of de-levering and getting out of a lot of trades that were like ultra levered, like Korean stocks or emerging market currencies, things of that nature.

And so that de-leveraging is starting to impact global risk. Premiums and global real yields, and so they're all rising. And so when that happens, that's when that happens. You have to say to yourself how high can they go? When does this de-leveraging influence end the rate path? It's moved.

It's going to change a lot if oil pro, if the Iran is solved, but that may or may not happen. But the short term rate path is baked in the cake now. It's no, it's just gonna be the way it is now. So that's probably not gonna cause significant additional term premium expansion or real yield increases.

So at some point, real yields are gonna stop going up, and that's gonna be a very attractive time to buy beta broadly, but specifically long-term bonds. Gold, which has been a one down \$900 from its peak, I think. Possibly, and certainly

equities to the extent that equity's cheap. So I think the takeaway here is we're in the midst of a de-leveraging.

We're in a midst of a shift from rate cuts to rate hikes. We have great tension that is part of the reason why volatility is so high. And at some point it's gonna resolve. And now the question is when. And so when I look at real yields and I see. Many points over the last few years where when real yields poked above 2.75%, they're currently right there on 30 over

Nick: 30 year bond.

Yeah. On 30.

Andy: It was an attractive time to buy all assets. So I guess the question is, so when I think about that, I then say, okay, as a market timer, we're getting darn close to wanting to buy stuff. However

it needs to play out. We don't know how long it'll take for the Iranian situation to resolve. I'm the, I'm not a believer that this is a simple resolution, but you never know. It could resolve in a month. That could take a lot longer. Long-term oil prices suggest \$80 oil prices in December suggest it's gonna take a long time, but we don't know.

So then you go back to these real yields, which haven't broken out to new highs. They're just tickling these high levels that have historically been a decent buy. I think the job, our job is to, we're well positioned. We've been very well positioned for these events. I think our job is to find a real attractive buy, and to me there's three possibilities.

The real yields do spike. Through the recent highs, the five year highs and recover.

Nick: Yeah,

Andy: that is a buy

Nick: for all assets.

Andy: For all assets, and we'll see what prices that happens to be, I just wanna see it spike and then recover and then buy. There's the other alternative. It spikes and doesn't recover.

If that's the case. There's a lot more room for downside for assets, and I'm not a buyer, so a spike and then a consolidation at new all time highs is very concerning to me for owning assets. So I wouldn't be a buyer. And then of course, it never spikes to me, which, if it never spikes, if there's never that sort of capitulation, so to speak, event with really attractive prices. You might as well be about where we're already positioned. Like I don't need to jump in and lever up if we never get this sort of table pounding by. And so that's what I'm paying attention to, and I think we can see that play out in the next two, two to three weeks.

Nick: But really you have to. Take a view on the way that this conflict will end and the timeframe in which it will end, because there's no way that oil prices are gonna go down back into the fifties or sixties unless this conflict ends.

And right.

Andy: The real bull case for equities is a.

Rapid decline in oil prices, long-term oil prices, which takes all the burden off of the central banks, which is stimulative to the consumptive eCom economy, which crushes the idea that the markets are actually risky and is bullish. The question is how bullish. And so let's say we go back to pre-war footing.

Should the stock market be well above all time highs? No, we didn't really love it back then.

Nick: Yeah. But it will probably test all time highs.

Andy: That's it'll, it could kiss all time highs pretty easily if we get a rapid decline in long-term oil prices.

Nick: Yeah, real rates would have to come off a good 30, 40, 50 basis points, and I find that very difficult to believe or to think that it's probable within the next, I dunno, foreseeable future I have a strong view that.

The situation will be resolved, but I still don't think that the short end goes down below fed funds because I think the market is now going to assume that the Fed is going to do nothing for quite some time and then. Towards year end they might start cutting when Wash is in and he's sorted out, he's being confirmed, he's sorted out.

His relationship with the other members of the FOMC, all that takes time. So I don't think we are gonna see cuts for quite some time. And the stock market was really relying on those cuts as well. So I can't see it making, sort of new highs by a lot. I think we can put together some option strategies that take advantage, consider everything that we've just said, and I'll talk about those when we when I do my segment.

But do we agree that. It's terribly unlikely that we go into a fully fledged recession unless we have a permanent increase of oil prices from what used to be the 50 to 70 area. Now into the 80 to a hundred plus area long term. Now that could take us to recession, right?

Andy: There's lots of reasons why we could go to recession that have nothing to do with the Iranian war.

Nick: Yeah,

Andy: we have, we've been talking about. The economy broadly speaking. But our outlook on the economy prior to the war was employment growth is anemic. Employment supply is equally anemic. GDP growth depends entirely on consumption and AI investment, and those have risks, but. An \$80 oil price throws the odds of a recession, a long-term sustained \$80 oil price throws the risk of a consumption driven recession much higher, and resolution returns us back to where we were in which a recession was not likely.

Nick: So what we are saying is that at some stage, whether it's right here, right now, or within the next two or three weeks, if we think that the Iranian situation will be sold within a month, we have to get longer of equities. It's a question of price and it's a question of timing.

Andy: Yeah, absolutely. I bought a little bit of equities last week.

I think it's probably. Not a great time to buy equities. Not, you don't need to pound the table on equities. And if you get us if you get we're gonna we get a deescalation re-escalation headline. Every few hours, both from the Trump administration, from Trump himself, back and forth. We get all sorts of headlines.

One of these headlines is gonna be a, thought of as pretty deescalating and we're gonna get a few hundred point rally in the S and P. But does that mean I'm a buyer? Nah, I don't think so. It's just means that you'd want to be willing to buy on an escalation headline that is just too much. Otherwise you would have to

know exactly what the plan for Iran is and how Iran will react and how all the various constituents will react.

And I have no ability to judge that. So for me, I wanna buy, listen, I every mo this, the LA all last week and today I've been pretty conservative on stocks for some time now, and I'm looking to buy. But as I said from the beginning. I think we're gonna challenge these real yields and until these real yields resolve at a, higher and then recover, I just don't think there's a lot, you don't have to pound the table on anything.

Nick: So basically what we are saying is we are playing the odds if free yields go up in other five, 10 basis points and spiked through the previous highs. We would be betting that they come back and that is the time to buy equities, bonds, gold, all assets basically. And that's the plan that we will carry out.

In the meantime, we can talk about the option strategies that we can employ to minimize the risk of us being wrong and maximize the probability of us making decent money if we are right. But that's all we can do. We can wait for these real yields and then pounce something. I'll do my segment. I'll explain the option strategies that we want to, enact when that happens, and send an email out when we see it happening, and press the button.

What kind of level do you think in terms of equity allocation. Would be appropriate. Certainly if we are around the 35 to 40% area, now we want to at least increase it by 50%.

Andy: Yeah, that's sort, on a real equity flush, which to me is 6,300 or below on the s and p. A si a 10% correction.

I think you're supposed to be assuming all the other things play out. Real yields are adequately high, other assets are down enough, vol is up enough. All these things that play out. You, I think you're supposed to own 65% equities at you're supposed to be near your max allocation in equities at around 6,300.

Now it could go to 6,000, you're supposed to be, you can't time the bottom.

Nick: Absolutely you won't time the bottom. But that is the, those are the probabilities because I just can't see that real yields can stay that high for that long. That's the bet that I would like to make. Great, Andy, thank you very much.

Speak to you next week.

Andy: See ya.

