

2 GRAY BEARDS | Week 170 Summary

April 4, 2026

MARKET OVERVIEW

Markets remain fully headline-driven. The Middle East war continues to dominate price action across asset classes, and neither Nick nor Andy claims any informational edge on resolution. The situation is genuinely unpredictable — any position that requires a specific geopolitical outcome is a bet, not a trade.

Oil remains elevated with a deeply inverted forward curve. The market's implied view is eventual resolution (December futures ~\$70), but the near-term range is wide — \$150 is on the table. Energy is the linchpin: a sustained bid in oil flows directly into inflation and complicates every central bank's decision calculus.

Economic data continues to suffer from massive revisions. January and February NFP were revised substantially after Friday's release; March numbers should be treated with the same skepticism. Markets have stopped reacting meaningfully to data prints — a one-minute blip and back to flat. The primary price driver remains headlines: 30–40 S&P points on each escalation or de-escalation.

THE MACRO REGIME SHIFT

The pre-war consensus has broken down. The prior backdrop: a "run hot" economy, strong data, no hike risk, easing bias, Trump using a new Fed chair to push rates lower. That was constructive for equities, neutral-to-fine for bonds, bullish gold, and bearish dollar.

That regime is now in transition. The war has introduced two simultaneous risks: a negative growth shock and a persistent energy-driven inflation impulse. The result is a Fed on pause and global central banks that were tilting accommodative now shifting toward pause or hike. The economy is vulnerable to a meaningful slowdown — not confirmed yet, but the vulnerability is real.

WHAT HAS ALREADY HAPPENED

A lot of the adjustment is already in the price:

- Equities down 6–7% to the lows
- 2-year yields peaked ~4%
- 10-year yields approached 4.5%; 30-year approached 5%
- Gold saw meaningful moves

The repricing from dovish to hawkish expectations triggered de-leveraging across risk assets. The "easy" market move is largely behind us; we are now in a stalling period where the outcome depends on whether demand destruction from high oil prices flows through to the real economy. Andy personally expects it will, but cannot trade on that conviction today.

INVESTMENT STANCE: CONSERVATIVE AND PATIENT

Andy is not pounding the table on any directional trade. The framework: be conservative, stay positioned to exploit larger dislocations when they come, and trade around the headlines rather than ahead of them.

- Sell stocks / buy bonds into "end of war" euphoria and relief rallies
- Do the opposite into genuine fear spikes and escalation headlines
- Hold that posture until a real trend establishes itself

The data isn't rolling over fast enough to justify aggressive action, and headlines can make a conviction position wrong very quickly. Patience is the edge.

SECTOR POSITIONING: DEFENSE & INDUSTRIALS

Nick raises sector rotation as the cleaner opportunity relative to playing the broad index. Both agree: the current overweights in industrials and defense remain the right trades. The thesis is structural — global rearmament, US push toward re-industrialization — and the direction of the administration, whatever the budget outcome, makes this clear.

Andy's framing: "What else would you put the money in? Semiconductors? No." The question is not whether the trade is right — it is. The only open question is whether to size up now. Andy defers to Nick on timing; no urgency to add at this moment, but no reason to reduce either.

THE BUDGET & TARIFFS

The Trump administration released a budget that Andy calls dead on arrival. Key line items: +40% year-over-year military spending (~\$400B increase) and approximately -10% on DEI/woke-related programs. If enacted: inflationary, negative for aggregate growth, positive for defense and industrial sectors. Neither host expects it to pass as written.

On tariffs: the existing SCOTUS-anchored 10% tariff (~\$150B annualized run rate) remains in place. New steel, aluminum, and copper tariffs were announced but require legislative action to stick. The notable data point: the administration projected \$450B in tariff revenue by 2027 — higher than any tariff package ever proposed, including Liberation Day. That number is a directional signal more than an operational reality. The direction: one-time inflationary, long-term anti-growth.

BOND MARKET: WAITING FOR 3% REAL RATES

Nick and Andy have been waiting for 30-year TIPS real yields to reach 3% as their entry point for meaningful long duration exposure. Real rates have repeatedly approached that level and gotten pushed back — most recently falling 7–8bps last week, which provided a floor for equities.

Andy's position: 3% is coming, but don't front-run it. Paying 2.80 in anticipation of getting to 3% is not the trade — the trade is to wait for the level and enter there. The catalyst likely requires some combination of:

- Treasury beginning to extend issuance duration
- Fed ending RMO purchases (flagged for April 15)
- Fed remaining non-dovish on the short-end rate path

The growth slowdown that would accompany this move is months away, not weeks. That gap between "now" and "then" is where the patience lives.

THE SEQUENCE THEY'RE WAITING FOR

This is the explicit roadmap both hosts agreed on:

- Real rates spike to ~3% on 30-year TIPS → build long duration position via TIPS
- Economic slowdown confirms in data → rotate into equities on weakness
- Multi-month process; the setup takes time to develop

Nick's framing: wait for the real rate spike, move meaningfully into longer-end TIPS, then wait for the slowdown. Buy equities once the slowdown has happened, not before. Andy's close: "Time is on our side."

