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Nick: Hello everyone. Happy Easter. Today is the 4th of April. We are going to keep this brief because we know that you have much better things to do on an Easter Day. The market is what it is, right, Andy? It's still dominated by these war headlines, which. Really are unpredictable. Nobody knows which way this will resolve.

The oil market keeps on going up the curve gets, keeps on getting more and more inverted, which basically means that people expect a resolution at some stage, whereby oil in December will be around the \$70 mark, but nobody knows where it goes. In the meantime. It could go to 150. Nobody knows. And it all depends on those headlines and we really don't know any more than that.

What can we say that actually adds value, Andy, in your, in your opinion at the moment?

Andy: Right, so I mean, we've seen some fairly reasonable moves. Equities fell six or 7% to the lows, two year yields peaked at 4%, 10 year yields. It didn't quite get to four and a half and 30 year olds didn't quite get to 5%, but those moved.

Um, we saw reasonable moves in gold and you know, all of that has been. By and large, a combination of headlines and fundamentals. And so the fundamentals to me are in the midst of shifting to ones where prior to the war the expectation was for a run it hot economy with data that was strong. That was not likely to cause the Fed to consider hiking, but may slow the easing.

But there was some confidence that Trump would force rates lower with a new Fed chair, and that was good for equities, not particularly bad for bonds, great for gold, and great for anything that was not dollar denominated. And now we're in the midst of a period where. The war has created a real potential for a negative growth shock and a real potential for a persistent change in the price of energy which will flow through to inflation.

So that's put the Fed on pause. It's put central banks globally from being accommodative to being more likely to pause or hike than what had been pause or cut. And so the economy has, is vulnerable, vulnerable, not happening. Vulnerable to a meaningful slowdown route in a world in which expectations are.

Not for a reason, a meaningful slowdown, but at the same time, the data isn't showing that. And so market participants, market participants delivered aggressively already due to changes in the short term interest rate market. And that shift from dovish to Hawkes due to. De-leveraging of risky assets, stocks, and gold all sold off hard.

And so a lot of that has happened. And now we're in a, I think, a sort of a stalling period of time where we just don't know whether demand destruction due to these high oil prices is gonna flow through the economy. I personally think it is, but I can't trade on that today. I can't get. Very bearish stocks and very bullish bonds today, partly because we don't know what the economy's gonna do, partly because the data is not likely to roll over rapidly, and partly because headlines can make you wrong very quickly.

And so from an investment standpoint, I think it's good to be conservative, being well positioned to take advantage of a of larger dislocations than what we've seen to date. And be prepared to sell stocks and buy bonds in periods of time when. Euphoria, end of war type headlines are happening, and do the opposite in periods of time when you know there's quite great concern about the war, and I think until the trend establishes itself.

That's what you're supposed to do. And I'll say one other thing. We've got a lot of data coming out regarding the government and what they're planning on doing. The Trump administration has announced a budget which has, is dead on arrival. No chance it can pass, but increases year over year, not.

Multi-year, literally year over year spending on the military by 400 billion by 40%, \$400 billion cuts. Most woke, DEI related spending programs by 10% Now. Dead on arrival also. But if it were to happen very bad for aggregate growth, very good for military growth. I.

Somewhat inflationary if it were to happen. Also, tariffs were announced, not that they've implemented anything. We're still in a world in which you have a hundred, a 10% tariff for a total of 150 days since the SCOTUS decision. Which hasn't been messed with and hasn't been replaced. There were a couple of silver sorry, steel and aluminum and copper tariffs announced this week, but they need to be replaced or they go back to sort of a hundred and \$150 billion tariff run rate that we've been at.

The Trump administration on Fri yesterday said they expect \$450 billion of tariff revenue in. 2027 as part of their budget process. That's a number that's higher than all of the tariffs that have ever been proposed, including the

Liberation Day tariffs. It's a massive number and. They've not implemented anything that would generate those sort of revenues, but it gives you a sense of the direction and that is one time inflationary and long-term anti-growth.

So there are a lot of administration things that are consistent with the idea that we could be in for a period of pretty meaningful, negative, weaker growth, which would be bad for stocks and good for bonds, but. Am I pounding the table that we're supposed to be lightning up in stocks and buying duration this week?

Absolutely not.

Nick: Yeah. Now, um, I mean the numbers that we keep on getting are, have such huge revisions, and we saw that with NFP on Friday that they revised January. Massively. They're revised February massively, so we cannot really have any high expectations that what we are seeing for March is in any way accurate because it's going to be revised massively again.

Next month. And that is why also the market is just not reacting to numbers at the moment. It just sort of does a one minute blip and goes back to where it was and everybody says, well, I can't trust this. I can't trade on this. And that is what's happening. And then we go back to trading on, on headlines for 30, 40 s and p points.

So the whole thing is a complete mess. I agree with you. But what do you think about the idea of actually then deciding that there are sectors which will likely continue to perform better rather than the index itself? Uh, you know, as. We all know we are in exp, uh, in industrials. We are in defense. We are in sectors where the administration is proposing.

I know that you know, this budget is completely dead on arrival, that you're completely right. There is zero chance that this will be adopted, but the direction that they want to take us. I think is pretty clear. What do you think of sec?

Andy: I think we're in the right, like we're, we've got the, the right portfolio, like the things that we're overweight in relative to others are the things I'd wanna be overweight in now.

Right. Around the margin. Would I, based on the last week or so, do anything to sort of. Get even more into that position. That's not my, I'm fine with it. It's the

right trade. It's just a question of is it the right size? And I don't have a strong view on

Nick: that. And is it the right moment kind of thing.

Andy: It's certainly the right trade, right? We're in the right trade. The question is, should we size up a little bit? I'll leave that to you. I'm totally supportive of whatever you do. But it's the right trade. I mean, that's the, the, the administration and the world is arming.

Nick: Yeah,

Andy: the administration is pushing industrialization.

I, I, it's hard to think that that's it. I mean, what else would you put the money in? Would you like to start overweighting semiconductors here? No.

Nick: No, you're, you're absolutely right. So it's a question you either add to that trade or you look for opportunities in the future to be adding to that trade rather than, you know, sort of rushing into doing anything today.

What do you think about the bond market? Because I'm in. Many minds, I still expect real rates to jump towards that 3% on 30 years and to give us finally that opportunity that we've been waiting for so long. But it, it looks, every time it tries to get there, it gets pushed right back. So last.

Week, for example, real rates fell seven, eight basis points on the third is, uh, and that's really what supported equities again. What do you think? Are we going to see that 3%? I know that you are guessing much the same as way as I am. I,

Andy: I think that's what you wait for the question to me, if you're asking, are we gonna get it?

I think so. Does that mean you should front run it and say, well, since we're only gonna go to 3% real rates, I might as well pay two 80. I don't think so. I don't think you're supposed to pay up to, I think you're supposed to wait. Now from that standpoint the macroeconomic impacts of why we would go to those rates is gonna require.

If the Trump administration is going to push through and get past budget busting. Debt financed military spending. If the Treasury is going to start

thinking, Hey, we need to start extending duration on our issuance. If the Fed slow stops, its RMO purchases because April 15th, which they said they would in April 15th, if the Fed is not, is in any way dovish in terms of its future.

Um, short-term rate, outlook, we're gonna get our 3%. And I think that's the direction we're heading. So I don't see a reason to chase now that said, what I told you I think is coming, uh. Is a meaningful slowdown in economic growth in the United States, which is bad for stocks and good for bonds. What I also hope you heard is it's not happening in the next couple of weeks, and so what I'm hoping I'm patiently hoping, willing to wait is first we get the real rate spike to our level, and then we get the slowdown.

And that would be the ideal. And so that's what I'm hoping for. That's what I think we can wait for. And I think the, I think time is on our side

Nick: and that is where we meaningfully readjust the portfolio, towards the tips, the longer end tips, and we just wait for the slowdown to happen. And then by equities, once the slowdown has happened, it's going be a multi-month process.

But that is the idea.

Andy: I think that's the plan.

Nick: Great. We've. Taken enough of your time this week, I think. Have a wonderful Easter holiday with your families and we'll speak with you next week.

Andy: Good Passover, good Greek, Easter. That's me. And enjoy the your holiday week.

Nick: Bye-bye

Andy: bye.