

2 Gray Beards — Week 171

April 11, 2026 | Nick & Andy

What Happened This Week

Markets were excessively short going into a ceasefire announcement in the Iran conflict. CTAs were forced to chase, real yields rallied ~15bps off their worst levels, and equities short-covered hard — the S&P ran ~500 points from the lows (~6,300) to 6,550–6,600. The ceasefire announcement itself gapped markets another 2.4%, after which price action flatlined. Nothing fundamental changed — no deal, just a potential beginning of talks.

Current Positioning

- Andy: was an aggressive buyer at 6,300; that trade is done. Now beginning to sell equities and buy puts. Not pounding the table in either direction.
 - Nick: expects a second round of failed negotiations; assigns $\leq 20\%$ odds to a durable deal. Believes equities are topping. Prudent posture is to stay hedged and wait for a second leg lower.
 - Both: no position change as a result of this week's moves — same view, different levels. Sitting tight until early May.
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The Structural Problem: Oil

Persistently elevated oil prices are the dominant macro overhang — not inflation per se, but the ~1% of GDP growth drag from redirected energy spending. This doesn't resolve with a ceasefire or even a formal peace deal. Any peace rally is a sell-the-news event.

Data

CPI was slightly better than worst-case but irrelevant — headline distorted by oil, core mildly reassuring for Fed cut camp. PPI next week allows PCE calculation. Neither speaker expects any data print to change their outlook. Recent data is broadly corrupted by tariffs on/off, the war, and the extended government shutdown.

What Could Change the View (Early May)

- QRA: If Treasury signals increased long-dated issuance, risk premiums expand — negative assets broadly, especially negative US equities vs. rest of world.
 - Tariffs: Roll off in July unless re-engaged. Without them, ~\$300B revenue hole and ~100bps deficit-to-GDP blowout. No neutral outcome.
 - Fed: If Fed, Treasury, and administration all ease simultaneously — dollar gets crushed, bull case shifts to non-US equity markets.
 - AI ROI: Longer-horizon but a genuine potential growth catalyst if it materializes.
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The Trade If Midterm Politics Drive Policy

- Short USD
- Long rest-of-world equities
- Long gold

Andy's logic: you cannot save both stocks and bonds. Stabilizing the 10-year requires not issuing more of it — that supports equities but crushes the dollar. The only release valve is the currency.
