

# 2 Gray Beards — Week 171

## Full Summary

April 11, 2026 | Nick & Andy Constan

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### Market Overview

The week's price action was driven by mechanical positioning dynamics rather than any fundamental resolution. Markets had gotten excessively short going into a potential ceasefire announcement in the Iran conflict, and when that announcement came, CTAs were forced to chase. The bond market rallied roughly 15 basis points in real yields off its worst levels, which provided enough relief to allow equities to also rally. Earnings season is arriving with expectations already set for strong results, which added further fuel to short-covering in equities — though notably not in bonds, where the covering was far more muted.

The S&P rallied approximately 500 points from the lows Andy was pounding the table on (around 6,300), ultimately running to 6,550–6,600. The ceasefire announcement gapped markets another ~2.4%, after which price action flatlined. Both Nick and Andy are explicit that nothing fundamental has actually changed — no deal, no resolution, just the announcement of a potential beginning of negotiations.

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### Positioning & Tactical View

Both speakers are in agreement: this is not a moment to press either direction aggressively, but the bias is to reduce equity exposure and wait for the next major catalyst window in early May.

Andy's tactical stance:

- Was an aggressive buyer at 6,300 into the mechanical selling; that trade has played out
- Is now beginning to sell equities and buy puts in his alpha account — not aggressive, but directionally short
- Is NOT pounding the table to buy at current levels — describes doing so as "crazy" given nothing has fundamentally changed
- Wants to begin extending duration in bonds if real yields offer a sufficiently attractive entry

Nick's framing:

- Expects a second round of failed Iran negotiations, which would cap equities from making new highs
- Assigns no more than 20% odds to a durable deal; would expect a further leg higher if one materializes, but views that leg as ultimately failing too
- Believes equities are in a topping process — could go higher, but the prudent posture is to stay hedged and wait for a second leg lower
- Notes that both speakers haven't changed their underlying position — they're saying the same thing at different price levels

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## Oil as the Structural Overhang

Andy flags persistently elevated oil prices as the dominant structural macro variable — more important than any single data print or near-term geopolitical outcome. His argument:

- Even in the most optimistic peace scenario, supply is likely to remain tight for an extended period; the damage to infrastructure and trade flows doesn't reverse overnight
- The real economic harm isn't primarily inflation — it's the growth drag. Elevated energy costs represent a ~1% of GDP tax on consumption that gets redirected away from everything else
- This headwind is not resolved by a ceasefire and may not even be resolved by a formal peace deal

The implication for markets: any equity rally associated with peace news is a selling opportunity, not a new bull leg. The conditions for the Fed to ease, for employment to stay strong, and for growth to accelerate are all impaired by this energy backdrop regardless of the geopolitical headline.

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## Economic Data

Both Nick and Andy are dismissive of near-term data as a market driver. CPI came in slightly better than the worst-case scenario but was largely disregarded — the headline was distorted by oil, and the core read, while somewhat reassuring for those hoping for Fed cuts, doesn't change the structural picture.

Next week's calendar: PPI (which, combined with CPI, allows PCE to be calculated with high accuracy) and home sales data. Neither speaker expects anything in the data to alter their outlook.

Andy is explicit that trying to extrapolate market direction from the last 4–6 months of data has been a fool's errand. The combination of tariffs on/off, the war, and an extended government shutdown has corrupted the signal in almost every major data series.

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## Big Picture: What Could Change the View

Both speakers pivot from near-term data to the structural catalysts that could genuinely shift their positioning. These are not weekly concerns — they arrive in early May:

- Quarterly Refunding Announcement (QRA): Treasury will signal whether it intends to increase issuance of long-dated coupon bonds. If yes, risk premiums expand and the pressure on both stocks and bonds intensifies. Nick describes this as "very negative equities" — Andy nuances this: it's more negative bonds than equities if accompanied by large deficits, but either way it's negative US equities relative to the rest of the world.
- Tariff resolution or continuation: Tariffs are set to roll off in July without action. If they're not re-engaged, the government faces a ~\$300 billion revenue hole (following SCOTUS constraints) and a ~100 bps blowout in the deficit-to-GDP ratio. If they are re-engaged, that triggers a whole new round of policy decisions. There is no neutral outcome here.

- Fiscal trajectory: The proposed budget includes \$1.5 trillion in military spending. Even setting aside the war, the deficit is growing rapidly, which feeds directly into the issuance question.
  - Fed policy: Will the Fed ease into inflation as Trump wants? Andy notes this would destroy the dollar — which has its own set of asset market consequences.
  - AI ROI: Whether AI investments begin generating measurable returns is flagged as a longer-horizon variable that could genuinely change the growth picture.
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## Dollar & Non-US Equities

Andy lays out the political logic cleanly: if the administration is trying to support markets into the midterms, the only coherent policy path is to sell the dollar. You cannot simultaneously save stocks and bonds — stabilizing the 10-year requires not issuing more of it, which supports equities but crushes the dollar. So the trade is:

- Short US dollars
- Long non-US equity markets (rest of world)
- Long gold

Andy is explicit that he doesn't know whether the administration has given up on midterm market support or believes they have it locked in. But if the goal is to hold both stocks and bonds together, the only release valve is the currency.

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## Looking Ahead

Both Nick and Andy characterize this as a holding pattern week. The next decision window is early May, when the QRA, fiscal signals, and tariff trajectory all crystallize. Until then, the posture is:

- Remain hedged on equities; do not chase the rally
- Begin extending duration on bonds selectively if real yields reach attractive levels
- Watch Iran negotiations as an asymmetric vol event — a deal is a sell-the-news event; failure is already partially priced
- The big structural headwinds (energy, fiscal, monetary) remain intact regardless of geopolitical outcomes