# 2 Gray Beards

Week 172 · April 18, 2025

## MACRO BACKDROP

Economic data remains flat and largely uninformative. There is no meaningful acceleration or deceleration in the underlying economy.

- Unemployment: flat, stable — notable given the broader uncertainty
- PPI: marginally better than worst-case expectations, but still inflationary — prices rising, just not skyrocketing
- PCE/CPI: not yet released but directionally telegraphed by PPI/CPI — neither brilliant nor catastrophic
- Data quality: consistently low; offers little signal about forward conditions

Real rates: 2.6–2.7%, with upside risk. S&P pricing in ~17% earnings growth at 23x multiple — a combination both hosts view as unrealistic given the macro backdrop.

## GEOPOLITICS — GULF / STRAIT OF HORMUZ

The Strait of Hormuz remains blocked; ships are not transiting. Nick's framework: Iran is effectively ungoverned — competing internal factions are producing contradictory headlines. The 'negotiations' news should be read as factional noise, not policy signal.

Resolution trigger: 2–3 weeks before any meaningful clarity. Until a dominant faction emerges, the geopolitical picture is unresolvable. Headline risk on both sides remains high.

## THE SQUEEZE — ANATOMY OF LAST WEEK'S MOVE

Nick described a multi-layered technical squeeze he believes was one of the largest percentage moves since the 1990s. The sequence:

- Investors entered the period hedged, then progressively added shorts into weakness
- At the lows, positioning was extremely short
- The administration timed the release of Iran 'good news' to coincide with a technically vulnerable market
- Short-covering triggered, which then cascaded into gamma exposure — call sellers were squeezed as gamma exploded
- CTAs were forced to cover ~$80bn/day
- Critically: there were no sellers. ETF holders (BlackRock, Vanguard et al.) had no reason to reallocate out of equities since bonds weren't offering a compelling alternative — they simply didn't supply stock

Nick's miss: he did not adequately weight the JPM collar expiry in the context of such extreme short positioning. The timing mattered far more than in prior quarters. Owns it clearly.

## CURRENT PORTFOLIO POSITIONING

**2GB Original:** Well-positioned. Equity exposure roughly where both hosts want it. No action needed.

**2GB Squared:** Was caught early and wrong on the squeeze. Now repositioned to desired level. Also no action needed.

**Andy (Damped Spring):** Actively pounding the table to sell assets and go short for alpha — more aggressive than either 2GB portfolio.

**Nick (personal):** Net short equities across all accounts outside the 2GB portfolios.

Andy's overarching framework: at current prices, the job is to take less risk. Less equities, less bonds, less gold, less commodities — more cash. Bonds and cash are functionally equivalent in performance terms; bonds haven't provided meaningful diversification benefit in years.

---

## BONDS — THE PERENNIAL NON-ANSWER

Both hosts agree: bonds at current real yields (2.6–2.7%) are neither compelling nor disqualifying. Andy would want to own bonds as a hedge only at 3%+ real yields. Below 2.5% real he'd be actively unhappy.

The practical result: bonds = cash for portfolio construction purposes. The 2GB portfolios hold no bonds. The risk Andy flags: there will come a time when bonds and stocks should both be bought in size simultaneously — that setup isn't here yet, but it's worth watching for.

---

## WHAT WOULD MAKE ANDY BUY EQUITIES FROM HERE

Andy was explicit: at current prices, it would take a lot. Low-probability but theoretically possible catalysts:

- Highly front-loaded fiscal stimulus via reconciliation (Andy views as near-impossible)
- QRA (May 4/6): Treasury cancels coupon auctions — would be bullish stocks, very bearish dollar
- Fed cuts or signals a cutting cycle — better reason to buy global/European stocks than US, but still supportive
- AI breakthrough catalyst for select stocks (not market-wide)

On the QRA/reconciliation: the current focus is simply on funding the DHS (not being funded is a technicality, not a spending halt). A skinny reconciliation is possible but not stimulative.

---

## WHAT TO WATCH NEXT WEEK

Data calendar is light. No major catalysts expected. Key items:

- Treasury auctions (2s, 5s, 7s): expected to clear 3–4bps above funding — unremarkable
- Retail sales & jobless claims: standard reads, no change expected to macro picture
- Fed speakers: Waller delivered a meaningful speech; Moran shifting tone slightly less dovish — doves are getting less dovish

- Powell's Senate testimony: possible; Andy expects him to navigate carefully and land on the dovish side if pressed
- Earnings: more reporters, but none of the major tech/mega-cap names — note that all earnings reporters so far have underperformed the broader market post-release

Nick's tactical call: the squeeze typically retraces at least 50%. The move was ~800 points (6,300 to 7,100). A 400-point retracement is his base case over the next 2–4 weeks.

---

## ONE-LINE SUMMARY

The squeeze was technical — short positioning, gamma, no sellers, and administration timing. It's over. Stocks are pricing perfection at 23x with rates at 2.7% real. Both portfolios are where they need to be. Sit tight, let the earnings season confirm the picture, and wait for the QRA in early May.