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Nick: Hello. Good morning ladies and gentlemen. Today is the 25th of April and the incredible squeeze continues. Does it not, Andy, I've never seen a squeeze, which is as persistent as this. They just won't let anyone into the market. But it's only the tech component of things, isn't it? Because every other sector just about got slammed.

Exactly what I thought would happen to the whole index. Didn't happen to the whole index because tech kept on going and basically boyed it up. What the hell is going on and how do we get ourselves outta this jam? I keep on. Asking myself that, and I'm not coming to any conclusions apart from I want to wait for the 29th when all the big tech earnings are out, but give me what you think, Andy, and then we'll discuss it.

Andy: Yeah. Obviously, looking back, war big sell off in markets on. Expectations of inflation, the Fed can't cut. The the oil price is gonna stay persistently high, slowing the economy overshooting in at the end of March to, unsustainable, low negative low levels reversed on.

The warm possibly ending re relatively soon and a recovery from, my view is we are at 6,900 ish. We fell to 6,300. That was probably a few hundred point overshoot. So maybe the right range was 6,600 to 7,000. But then we ripped through the top end of that range on what seems to be DR.

Driven primarily by, listen, earnings are gonna be great, everyone expected earnings are gonna be great, but we had a fairly aggressive month quarter and, sorry not quarter and April ex options expiration that broadly. Slowed the rally. RSP was, which is the equal weighted tech. Equal weighted s and p was down week over week.

Bonds went nowhere. Gold's gone nowhere. Oil's gone nowhere stays elevated. There's chop as the news headlines on the war happen, but. Tech earnings. The only tech earnings we got were semiconductors. We did get software companies like IBM and ServiceNow and even software companies like Tesla, and none of those stocks did well, so it was really just Texas instruments and intel and that ignited MD.

What's that?

Nick: And a MD

Andy: Did they report? I didn't see them.

Nick: No. But they were still up like

Andy: 10%. Yeah. No. My point is Texas instrument. We had, interestingly, we had major tech semiconductor companies that are important to the industry. In particular A SML, which makes all of the machines that make the chips and.

Taiwan semi, which is the foundry, which make besides intel. And intel is like a pimple on Ty Taiwan, semi's ass that make the actual wafers for all of the semiconductor companies. They reported and their stocks that didn't do much. A SML fell and then recovered with all the rest. But it was really the storage stocks and the more generic customized chip sorry, generic chips, commoditized chips along with Intel that ignited a massive rally in in chip companies.

The chip index is up. What is it up for the month? For as long in one month it's up. Five oh, a hundred and twenty five. 125 points, or 32% in a month. That's a hell of a rally. So that's all it is. And so we go into next week, so by the way, nothing changed in terms of the overall thesis on why you want to own semiconductors.

Nothing changed. The earnings were fine and expected. It wasn't like there was. A gap up in earnings. And again, the found the world's foundry and the world's equipment maker for the companies didn't really do much.

Nick: So do you think this is all positioning then, because we know of people who are very short of the semiconductors, especially on spread to energy and other things.

Andy: Yeah, I don't know. I certainly think it's again, what I as I said, I don't think anything changed with the thesis. I think we all know that we're gonna be using more compute, and that compute depends on chips. And a month ago we knew that, and a quarter ago we knew that when they last reported earnings, nothing's changed.

It seems like a, I don't know that it's a short covering because I don't think a lot of people were short semiconductors.

Nick: Oh, I know someone who was

Andy: Oh, do you? Who's that?

Nick: It doesn't matter.

Andy: Anyway I don't know who's short semiconductors, nothing in my work that looks at men major cohorts would suggest a real offsides short, but.

Of course there were shorts. There were shorts, and there are longs. What it seems to me is just a extension of the herding in, of no one owns enough chip companies. And so to me it wasn't a short covering. It was just like, if you owned a a semiconductor stock, why would you sell it? And if there are no sellers.

Even the most modest of buying and the buying was not modest will distort the price massively. And so I think that's what's happening. And so we run into next week's earnings with, so the one thing we do know is next week we're gonna find out CapEx from the people who are buying the chips. Like you and I aren't buying those chips.

The people that are buying those chips are data centers and the hyperscalers that commiss either buy, build their own data centers or or commission the buy the building of data centers meta Google. Microsoft. Apple's a another tech company, but it's not a hyperscaler. It also reports they're not gonna be showing, they're not their stock actually hasn't done much.

But those three, the three hyperscalers are the ones doing most of the CapEx. And so when you look at CapEx flows going in, it's literally the chips that are being bought. And so we'll find a sense of, one thing we know is that a few months ago, the last time, and for the quarter before and the quarter before, every time the hyperscalers have announced far in excess of expectation CapEx.

Every quarter they tell the analysts the CapEx is gonna, the prior quarter, they tell the next quarters CapEx is gonna be X. And they do. F, F1 and a half x when they actually do the CapEx and they project one and a half X more than what they said the last time, and that's been quarter after quarter. And so again, we all know this.

It's not like I'm telling you any new information, but we'll find out if they. We're now at a point where CapEx is running at what, 700 amongst these small cohorts, $700 billion to grow your CapEx, another 50%.

Nick: Wow.

Andy: Is a real trick. It's not and so we'll see if they can continue to, to parabolically meaning, or even just linearly increase their growth at the same rate of growth.

I don't think they can.

Nick: No,

Andy: I If they do, it's almost impossible if they do these, if they do, these semiconductor stocks are still not like inexpensive. When you look at Nvidia, for instance, which won't report for a month, Nvidia expects its earnings to grow a hundred percent year over year.

That's their forecast. A hundred percent earnings growth year over year. And that's down from the last three years where their earnings have grown more than a hundred percent. It's a $5 trillion company right now, so a hundred percent earnings growth on a $5 trillion company is a big number. If they do it, their stocks dirt cheap at, mid twenties PE for forward earnings.

So the question continues to become, where is all this money going to come from for. Funding all this CapEx that's built into the prices. And I think we'll find a lot of information about that in the next week. And if the, listen I think if the, it's interesting if the, if we go into year, month end the this earning the 29th, which is the earning state,

and these guys ramp their CapEx above expectation, those stocks are gonna fall. Markets don't want that. The last time. Every time they've ramped CapEx, the stocks have fallen. But the type, but the chips companies, woo, they're gonna rip on that news and if they don't

increase their CapEx, or if they say, we're running 700 billion sort of the run rate, it's not gonna grow anymore. The semiconductors are gonna get crushed, so it's a very important and interesting week next week.

Nick: Let's talk about something else that happened last week that not many people are going to talk about, and that is the fact that Powell is.

No longer under indictment or whatever it is that they've dropped the investigation into the fed overspend on their building. Basically what that has done is actually opened the way for Wash to be confirmed and to basically take over the Fed on in, in June. Also, what it does. Opens the possibility or the probability rather, that Powell will resign his seat and that someone else will be appointed to take over his seat.

Whether that is Steve Muran or someone else remains to be seen, but chances are that he's going to be another dove. So it seems trump has finally seen the light, probably Beston knocked on his door and said, hello. What the hell are you doing? You're spoiling my plans. But now we know that Walsh odds are 99% he takes over in June.

He's had his confirmation hearings. Nothing new came out of those hearings, but now we know that he has a plan. The plan to reduce somehow the balance sheet and the plan to cut rates, do you think it's going to make any difference to the shape of the curve? Because I think it's going to barring any bad news from Iran, which the market now is more or less not caring about longer term.

Is it going to change the curve? Are people going to start expecting. More cuts from the Fed because I certainly think the market is going to start pricing another one or two cuts later on in 2026. I don't think it's gonna make any difference for April, certainly. I don't think it's certainly gonna make any difference for June because it's just too soon and he only has a handful of votes for cuts, but later on.

When this Iran conflict is sorted out and the market doesn't see any more ramps in or probabilities of ramps in inflation, can we start getting more cuts priced into the curve and immediately probably we can start getting cuts priced into the belly, into the four year, five year, six year area. While the long end does absolutely nothing, and it's done nothing for, all year, it's been in a very tight range.

Is that possible? And if that does happen. Do you think it starts supporting all the other sectors of the equity market, which have been lagging certainly last week, but also, the whole of this rally, if you have a look at the Dow components are nowhere near the old time highs while tech has just gone berserk.

So do you think that move. Can help those lagging stocks.

Andy: Sure. So it's so hard. Lemme just re-say what I think on this. I think it's great that the Trump administration appears to have dropped the investigation into Powell so that we can move on. It's. Did for, I'm not gonna make a judgment on whether he should be investigated or shouldn't be investigated.

I think it is likely was likely political. So I'm happy to see it dropped and I hope that Tillis meet the press tomorrow will drop his blocking of war and that war shall get confirmed this week. And then it's a matter of trust whether. Powell will then resign as governor. I'm sure he would like to, but he also has to protect himself.

So the, I don't know what backdoor deals will be made, but assuming he gets satisfied, I expect he, he'll resign from governorship now then so just with that tells me that if wars. Is going to follow Trump's desire and cut when it's not necessary. Cut. When it's not possible. Necessary.

Nick: Possible, but possible margin.

Andy: No. I swear, I lemme just frame it. There's two, there are multiple ways to cut. There's cut when it's necessary. Cut when it's not necessary. Those are two of the obvious choice. The only choice, right? You could also pause or you could hike when not necessary, or hike when necessary. Those are the five options.

That's all we got. So

Nick: how about cut when it's

Andy: marginal? That's, so I think you're now in the exact essence of thing, which is. Who cares, like I wanna under to understand what's gonna happen in the belly of the curve or the long end, or frankly, even twos, but. The idea that he's gonna cut because it's a marginal thing, is pretty irrelevant to an investor.

That said, if he cuts one, it's not necessary. Great for stocks, particularly stocks that are suffering that bad for long-term bonds. Okay, for the middle of the curve, totally get that. That's the cut, if not necessary, cut. If it's marginal. I think it's modestly supportive because it would be, the question is how expected.

It'll be like if, lemme tell you something, if he cuts two times between now and the end of the year, that would be a cutting when not necessary, unless the data has gotten worse. 50 base points of cuts is absolutely 100%. Not called for by.

Nick: By this data,

Andy: by this, by the data we've seen so far. I, and that includes with what's happened in Iran.

Like obviously Iran's a wild card, but if he cuts 50 basis points or the market perceives he's cutting 50 basis points, sell the dollar, buy gold because he's doing, he is cutting, not necessary. Oh, and stocks. Yeah. Put yourself in a protect environment. Something where you own more foreign stocks. Less bonds, more gold.

Now I don't expect that. I do expect modest, and we've already seen it, since the announcement of the drop. Z six is rallied, which is the how many cuts priced into how, rally seven days, five 30.

Nick: So flattened. Yeah,

Andy: sorry. Steep.

All those things have started happening.

Do I think there's more room in that without, certainly there's no more room in that. If the war, if war data goes bad, there's certainly room in that. As people say, yeah, he's gonna, he's gonna, he's gonna be the chair and he's gonna file Trump. Follow Trump. So I don't disagree. And I think the higher level point you're trying to make is as the front end starts pricing in more cuts, all else being equal, that's better for the broad stock market.

Nick: Yeah. Yes. I think for all the sectors that have lagged the past three weeks.

Andy: In particular, the lagging sectors. Yes.

Nick: Okay, so let's talk about next week, because we've got a lot of things happening. We've got the first auctions, again of twos, fives, and sevens. We haven't had those for a bit. And we do have some data like consumer confidence, durable goods, but nothing seems to be changing in terms of the economy.

As you, as we've said repeatedly, the data is, dubious of dubious quality, but also. Overall, nothing seems to be changing in the employment sector. It's all very flat. Are we ever going to see any kind of change and, but are do we expect that change to happen next week probably is the question rather than

Andy: there's just no data.

There's just no data that's gonna suddenly no backward looking data that's gonna suddenly surprise everyone. It's only about forward-looking data and expectations on forward-looking data, we're gonna have more inflation than we want until oil falls. We're gonna have growth that is supported by CapEx until CapEx falls.

We're gonna have consumer demand. That so far is okay, but one, if oil stays high, is gonna start to weaken. I don't look at tho the data. I don't think we're gonna get anything from the data. I think you're right to focus on auctions twos, five sevens. The FOMC and three other central banks who are all, yes,

Nick: We've got the BOE, the BOC and the ECB on top.

Yeah.

Andy: So they're

Nick: gonna be, I don't expect many surprises if the only surprise that we could get is a very hawkish ECB, relative to expectations. And that knocks everything back again. And that's probably a buy.

Andy: And then of course the 29th is the big earnings, and then the following week we'll talk about that next week, is the QRA and whether the treasury is gonna continue to undersupply coupon bonds, which is the most likely outcome,

Nick: but no change to the actual levels of the QRA.

Andy: That seems to be the expectation.

Nick: Okay. Thanks very much Andy. Let's let's make a plan to buy on dips. Of the, all those lagging stocks or sectors rather that have been going on. But I think there will be dips in everything. But I'm especially interested in the lagging sectors,

Andy: right?

Particularly if they fail. While the big tech the hyperscalers are selling off. If they fail when the hyperscalers are fine or rallying, I think that's a great buy. But if they fail when the hyperscalers, I think you could be patient, we'll have to see how that all plays out.

Nick: I'll find some levels and put them up there.

Andy: Great.

Nick: Thanks very much Andy. Speak to you next week.

Andy: Thanks, Doug.