

April 4, 2026 | Nick & Andy

MACRO BACKDROP

Markets remain headline-driven. The war creates two simultaneous risks — a negative growth shock and persistent energy-driven inflation — putting the Fed on pause and shifting global central banks from accommodation toward caution. The pre-war "run hot" consensus is breaking down. Oil is the linchpin: the forward curve is deeply inverted (December futures ~\$70) but the near-term path is wide open — \$150 is on the table. A sustained bid in energy flows directly into inflation and tightens every central bank's room to maneuver. The economy is vulnerable to a meaningful slowdown; the data hasn't confirmed it yet, but the direction is clear.

WHAT'S ALREADY IN THE PRICE

The initial repricing has largely happened: equities -6–7%, 2-year yields peaked ~4%, 10-year approached 4.5%, 30-year approached 5%, gold moved. Economic data is effectively untradeable — January and February NFP were revised massively after Friday's release, and March should be treated with the same skepticism. Markets have stopped reacting to prints: a one-minute blip and back to flat. The primary price driver is headlines, worth 30–40 S&P points per escalation or de-escalation. We are now in a stalling period — waiting to see whether demand destruction from high oil prices flows through to the real economy.

INVESTMENT STANCE

Conservative. No strong directional conviction today, even if the slowdown thesis is directionally correct. The tactical framework: sell stocks / buy bonds into end-of-war euphoria; do the opposite into fear spikes. Hold that posture until a trend establishes itself. Andy is not pounding the table on lighting up equities or adding duration this week — the data isn't rolling over fast enough and headlines can make a conviction trade wrong very quickly.

SECTOR POSITIONING

Overweight industrials and defense remains the right trade — the thesis is structural: global rearmament, US re-industrialization, and an administration whose direction is clear regardless of what passes in the budget. No urgency to add at this moment, but no reason to reduce. Andy's test: "What else would you put the money in? Semiconductors? No."

BUDGET & TARIFFS

Trump budget is dead on arrival: +40% (~\$400B) year-over-year military spending, -10% DEI/woke programs. Directionally inflationary, negative for aggregate growth, positive for defense and industrials. On tariffs: the existing SCOTUS-anchored 10% tariff (~\$150B annualized) remains in place; new steel, aluminum, and copper tariffs were announced but need legislative action. The standout number: the administration projected \$450B in tariff revenue by 2027 — higher than every tariff package ever proposed, including Liberation Day. Andy's read: one-time inflationary, long-term anti-growth. The direction is the signal.

THE PLAN: TWO-STEP SEQUENCE

The target remains 3% real yields on 30-year TIPS (currently ~2.78–2.80%). Andy expects to get there — driven by Treasury extending issuance duration, the Fed ending RMO purchases (flagged for April 15), and the Fed staying non-dovish on the short end. Don't front-run it; wait for the level.

- Step 1: Real rates spike to ~3% on 30-year TIPS → build long duration via TIPS
- Step 2: Economic slowdown confirms in data → rotate into equities on weakness

Both steps take time. The sequence is multi-month. Andy: "First we get the real rate spike to our level, and then we get the slowdown — that's the ideal. Time is on our side."