2 GRAY BEARDS | Week 174 — One Page Summary

May 2, 2026 | Fed Transition, QRA Preview & Global Central Banks

FED TRANSITION: POWELL OUT, WARSH IN

Powell stays until the administration's investigation is resolved, then exits. Warsh is the incoming chair. Both Nick and Andy take him at his word: the Fed balance sheet is too large and too duration-heavy. Warsh's likely agenda:

- Reduce balance sheet size and shift composition toward shorter duration — a tightening of financial conditions
- Offset that tightening with 1–2 front-end rate cuts, steepening the yield curve (bull steepener)
- Banks get a steeper carry; 30-year rates stay roughly anchored while 2s and 5s come down

The committee is split: NY Fed / SOMA bloc resists balance sheet reduction (repo risk); hawks want patience on cuts; a structural reform cohort is open to change. Warsh will need weeks of consensus-building — June action is implausible. FOMC members historically don't fight a chair for four years; the direction will hold, but the pace is slow.

EARNINGS: STRONG NUMBERS, NARROW LEADERSHIP

Google +12% was the standout; Meta -10%, MSFT -3%, Apple +4%, Amazon +2%. Strip out Google and mega-cap tech is flat on earnings reaction. NASDAQ EPS expectations are running at ~44% YoY growth ($710 → $1,180) — a massive embedded assumption. Industrials (XLI), financials (XLF), and materials (XLB) are all lagging despite broadly strong sector earnings. This is a pure AI/tech trade; nothing else is being rewarded. After April's strong rally, Nick and Andy expect retracement, not continuation — corporate bond supply from hyperscalers and a heavy IPO pipeline cap the upside.

QRA (WEDNESDAY 8:31AM): 98% NON-EVENT, TWO 1% TAILS

Auction sizes unchanged since Feb 2024; no reason to surprise. Treasury will likely soften language (from "several quarters" toward "a quarter") — a soft telegraph that increases are coming, not now. Watch for two low-probability tails:

- Bullish (1%): Treasury cuts auction sizes → stocks +10%, mortgage rates ease, DXY breaks below 95. A deliberate political asset-price support move.
- Bearish (1%): Treasury signals imminent size increases → supply shock, bonds and stocks both sell off.

QRA reactions are slow; if either tail fires, Nick and Andy will alert subscribers by email with specific positioning guidance.

GLOBAL CENTRAL BANKS: ALL PAUSED, ALL LEANING TOWARD HIKES

ECB, BOE, BOJ all held — no surprise. All are signaling future hikes (ECB likely June); markets had already discounted the pause. The notable action: Japan's Ministry of Finance intervened at ¥160 with ~$34B, then followed up more aggressively the next day. Motivation is structural — weak yen amplifies dollar-oil import costs for Asian economies. Andy expects narrow range-trading in ¥/$ to resume, not a repricing to ¥150. If intervention scales to $100B+, Japan would need to sell Treasuries, leaking into global yields and equities — a watch item, not yet a risk.

BOTTOM LINE

Warsh's Fed means lower short rates, flat-to-higher long rates, and more duration hitting the market — a net headwind for asset multiples. After April's rally, the path of least resistance is sideways to lower. Watch Wednesday's QRA for the tail scenarios and Warsh's first FOMC as the key inflection point.