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Nick: Hello, good morning. Today is the 9th of May. Another very squeezy, odd week, wasn't it, Andy? Mm. Unless you are in tech, you are nowhere. Mm. It's just going, you know, bubbly. Have we learned anything or are we like, uh, like, uh, Stan Druckenmiller, who learned absolutely nothing because he knew he shouldn't be buying?

I, I think that we're in the same boat, aren't we?

Andy: Well, you know, let's go back to both Druck and, um, well, Druck and, uh, Soros. Uh, George Soros said, "If you see a bubble, rush in. If you identify a bubble, rush in." Um, he, his, uh, protege, uh, saw the bubble, fought it for a little bit, rushed in, caught and bought the top.

And those are two pretty good guys. You know, I look at, I look at Soros and say, what he really meant to say is, "I'm much better than you are at identifying when a bubble is coming, is occurring. So when I rush in, it's because I identified it early." And people like to think that you can buy a bubble at any time at all and be safe, and Druck proved that to be false.

And as he as you- as he likes to say, uh, he didn't learn a thing. Yeah. He knew he shouldn't have bought, and he bought anyway, and that was that.

Nick: And I feel that that is precisely the stage that we are in, that- Well, let's try to just- ... we know we shouldn't buy.

Andy: Right. Let's try to define it. So there's two things, right?

There's the broad S&P 500 and the things that are really moving within the S&P 500 and the rest of the index. And my picture is we know that there are, that semiconductors are doing bubble-like things. Um, though their earnings estimates have markedly shifted up in the last year. Everyone knows that.

There may have been some catalyst in the most recent earnings series to get people to wake up to how amazing these earnings growth numbers are. Stocks like Micron... Sorry, uh, was it Micron that I did the numbers on? Yeah, Micron, um, has earnings per share going from \$9 a share to \$99 a share, 10X-ing its forward earnings growth in just two years.

You know, that's obviously very bullish. Um, but that has been-- The story has been well understood. It's just over the last few weeks, stocks have gone parabolic. So that's the semiconductors. The rest of the, of tech has followed because there are passive flows that, "Hey, I want tech exposure. Yes, that means Nasdaq. I have to buy some Nasdaq." It goes up.

And then the same passive flows say, "Ooh, S&P's up, you know, 8% for the year. It's cheap. Let's buy some tech by buying some S&P 500 'cause we're underweight equities." And that lifts all boats. And so when I think about the drivers, I say, "Well, are semiconductors in a bubble?" I think so. It may be early, but, you know, you don't have Intel 5X-ing in less than a year without some sort of fundamentals, which are great for Intel and specular frenzy.

Um, and so I think that's where we're at, and I think the overall market is pulled up by that. Um, anyway, so that's where I think we're at. B- And, you know, if this tech gets realized, markets aren't gonna go down. But if there's any hint of it not getting realized, you're gonna have an opportunity to buy.

Nick: Absolutely. Let's have a look actually at what the macro is saying and why this volatility is happening. My view is that We have very few drivers in all as other asset classes apart from equities. So the volatility in bonds keeps on going down because we all recognize that the Fed is on hold. There is the data that is coming out is all indicating that employment is fine, so that part of the mandate is good.

While we all know that inflation is continuing to rise, we have CPI and PPI next week, and they will probably be absolutely awful numbers. But we all know that will-- they will be awful, and we are all hoping that that actually is going to be the top of the wave in inflation having because of the realized price that we have in oil.

And we're all hoping that oil prices will go down once Iran calms down, the Strait of Hormuz reopens, et cetera, and the hopes are high for that. So there's no volatility in bonds. There's very little volatility in the, in foreign exchange. There's l- almost no volatility in other asset classes like gold.

When you, when the market doesn't have volatility in other asset classes, volatility migrates to the one that can have volatility, and that is equities. And as Andy just said, everyone is chasing a sector within the, uh, the S&P 500. If we have a look at what the other stocks are doing, the other sectors, they're doing very little indeed.

XLI is not moving, XLF is going down, XLV is going down. So there's only one sector really that's moving, and that is tech. The question then becomes: Should we be chasing tech? I definitely think that we shouldn't because we have a whole load of IPOs coming. Let's not forget that we have SpaceX, we have OpenAI, we have Anthropic, and these are all multi-trillion dollar companies, and many, many billions are going to be offered for sale, if not trillions.

And that's coming very soon in the next month, month and a half. And if one looks at the behavior of the market just pre these big IPOs, it's normally it market goes up 10, 15% into them, and then after the IPOs, there is a bad scare and the market comes off like 20, 30% from the IPO prices. That I think is probably going to be the opportunity rather than now.

While we are in this situation that war hasn't come in yet He will be probably confirmed on Monday or Tuesday, and then he'll take over at the Fed. And then as we described last week in the video, he will have to sit down with his colleagues. He'll have to thrash out a brand new strategy. He'll have to bring them on board, all of which takes months of preparation and timing.

So we know nothing is going to happen in June, so we're talking late summer before we can hope to have volatility back in bonds, a differently shaped yield curve, and that all gives us time to actually do something at the appropriate time rather than now. Because it, this is a bubble. Whether we are in that sector, in the, you know, XLK kind of sector, whether we are at the beginning of the bubble, the middle of the bubble, or the end of the bubble, nobody knows.

Absolutely no one has any idea. Myself, I will tell you what I think that you should look out for. You should look out for volume. At the moment, I think we have a bu- a sellers strike. Nobody is selling. If you own the, that sector, you are not selling it because you are just enjoying the returns. At some point, you will do the maths and you'll calculate how overbought it is and what it really is discounting, and that is the time that you will go in there and try and sell your shares.

And you will see that volume, the buyers and the sellers will meet, and you will see that volume trade. Once that happens, you are going to invariably happen, ha-have a few days of sharp up and down movements in the index. Up 2%, down 2%, up 2%, down 4%. And that combined with the spike in volume will be the signal that we are at the end of the, of the move of the bubble in tech.

That has been my experience and that is what I'm looking out for. Anything else that we can add here, Andy?

Andy: Yeah, I mean, I think coming back to the macro, um, the point I think Nick is making is that macro ex, ex tech equities basically, um, is somewhat frozen. Not to say that there's zero vol, it's just to say that to resolve the macro, you need to resolve the war.

And how that resolves, and it's really at the, at the macro level, it's a lot about the price of oil. It's not even, you know, we could, there's been a war going on in Ukraine for many years now. I don't care if there's war going on. I care if oil flows freely or not. And so until oil is resolved, the central banks which have been forced, some had been projecting cuts, some had been on pause, and some had been cautiously hiking prior to the war.

Now all have shifted hawkish, each different one, but they're all frozen. They can't do much. They're leaning toward hiking or pausing longer or actually hiking. They're leaning that way because of the price of oil, but they're frozen in that they can't really do much until oil is resolved. And so if you, if, if oil has frozen the central banks, the central-- The, the freezing of the central banks has frozen the bond market and the currency market, and to some extent the gold market, because that's very tied to central bank policies.

That whole frozen nature may stay frozen until the war is resolved, which may take a long time. But once it is resolved, we'll become unstuck. And for now, what that means is there's just no money to be made trade like market timing macro. And so all the people that have to pay their bills in market making and time-- market timing, in asset management in general are move, move toward, um, move toward something that's moving, and that's equities and in particular tech.

So anyway, that's the, what I-- the way I'd describe what Nick had said. In terms of next week, we do actually... Again, it's frozen, and so we're gonna get super hot CPI numbers, um, particularly headline. It'll be interesting to see core because will high headlines pull up core because there's always a little bit of energy built into prices, which would indicate that companies are increasing prices and clients and consumers are paying them.

Or will it offset the... W- will the higher energy prices and higher food prices cause lower prices of other goods, of core goods because people can't afford them? So they'll be an interesting thing, but nothing's gonna change because oil won't be resolved.

Nick: Yeah.

Andy: So, and then we're gonna have also a significant amount of 3s, 10s and 30s.

Uh, last week we mentioned the QRA. The QRA turned out to be absolutely nothing as we expected. And, um, at the same time, it's clear by 2027 there'll be In ch-, in ch-, uh, um, increasing coupon issuance, uh, it's just a matter of time. But that's been the story for a couple years now, and nothing changed last week.

Nick: Yeah. So anything that we want to be doing or watching out for to do something? What,

Andy: what's your view? Right. I think, I mean, I think in a bubble, um, there's like Druck, you, you see the bubble, you hesitate, you fight it, you do whatever, and then sometimes you jump in, and that's the worst possible time to buy.

Nick: Yeah.

Andy: But at the same time, you know, when I think about equities and I think about allocations, let's say your peak allocation is X and you're at half X, and let's say, you know, and you're not a leveraged player, you're just a real money investor like all our clients. You know, let's say that difference is 20% equity allocation.

Should you buy 20% of equities because it's been rallying so much? Well, let's say you buy the S&P 500 'cause you don't know better, and the S&P rallies 10% because wow, it really is a speculative bubble. Remember, for it to rally 10%, imagine what all the other things have to do to get there. Um, tech would really have to explode higher, more so than it has.

You make 2% more than you would've made. I don't think it's, I don't think there's any reason to have FOMO. I think you can just sit back and say, "Yeah, I'd like to buy some equities when they fall."

Nick: When the price is right.

Andy: When the price is right, and I don't think the price is right.

Nick: Yeah.

Andy: But that said, it could rally 10%, and I don't think it's likely, but if it does, you have to just judge yourself and say, what would your maximum equity allocation be?

How much would you actually make? And if it went against you 10%, 'cause that's more likely in my opinion, what would you do? And to me it says sit on your hands at this stage.

Nick: Great. Okay. I'll go through the portfolio, and the one thing that we didn't mention is, is bond yields. If they do spike on these CPIs and PPIs, do you think adding duration here might be now the appropriate thing to do?

Because we are more likely than not to be nearing the peak inflation stage.

Andy: Right. Right. I don't think it-- I mean, I think we both agree it probably won't, but you have a 30-year bond yield at 495, and it's really struggled to persist above 5%. But to me Buying it at 5% to then sell it at 4.8%, that's not a generational buy that I need.

But for myself, what I'm doing is I'm trying to buy at the 5.25, 5.5% yield, and I think that's when you can step in, and I just don't think that's in the cards for, uh, even for the hottest of hot CPI numbers. But if it is, I think we, I think we dive in, you know, five-

Nick: Absolutely ... at,

Andy: at

Nick: times. So we keep on talking about that real yield level.

Exactly. And that's the one that we're still waiting for, and we're hoping for it. And that actually- I think we will get there,

Andy: actually ...

Nick: and that actually would, would really knock back eq- equities, wouldn't it? Certainly most sectors. And that also would be the buying opportunity for both bonds and equities.

Andy: Yeah. I mean, if, uh, if you could get bonds at, you know, the sort of post-COVID high real yields, which is, what is it, like 290, 295? Three-ish. Three-ish. Three, let's call it. If you could get there, you have to really consider whether you should also buy equities at the time. If they're rallying, probably not, but if they're down, yeah, you have to think about that.

Yeah. So that continues to be... Now, uh, I don't know where, how we get that, but maybe a hot CPI number gets us part of the way there.

Nick: And speculation of a continuation of the hot CPI, and maybe something happens in Iran that basically says that this is going to last many, many m- more months.

Andy: Yeah.

Nick: Those are the possibilities.

So you are certain it will continue.

Andy: Yep.

Nick: So we just don't know. And that's when we start to

Andy: care.

Nick: Okay. Great, Andy. Thank you very much indeed. Thanks, Nick. Have a good one. I'll go through the portfolio and speak to you all next week.