2 GRAY BEARDS Weekly Summary · May 23, 2025

FED POLICY

- Waller — a known dove — delivered a distinctly hawkish speech: easing bias removed, hikes back on the table.
- Core concern: Fed has missed 2% inflation target six years running. Any further shock risks de-anchoring public expectations.
- His explicit trigger: market-based inflation expectations (2–4yr forward). If they drift, the Fed hikes.
- Warsh formally sworn in Friday. First major test likely the June press conference. Both he and Waller are on the same page.
- **Global consensus:** Every major central bank has now shifted from cutting/pausing → pause/hike. Confirmed.

RATES & REAL YIELDS

- Short end (2s) continues to weaken. Long end sold off hard then stabilized slightly this week.
- **Target:** 3% real rates = threshold for significant duration reallocation. Current implied: ~2.75%. No rush.
- Paths to 3%: (1) Warsh ignores Waller's trigger → long end panics; (2) Japan/UK bond stress spills over; (3) energy shock Warsh looks through.
- Gold weakening and reconnecting to real yields — interpreted as market pricing in higher real rates ahead. Reinforces patience.

EQUITIES

- Nvidia: blowout earnings, stock barely moved. Too widely owned (SPY, QQQ, active funds, retail) to have a natural marginal buyer.
- AI trade intact but Andy expects eventual stress — not enough economic pie for AI companies and the rest of the market to both win.
- **Stance:** Dip buyer. Limited upside from here but 5–10% more possible. No reason to add risk into the current supply wall.
- June IPO pipeline (SpaceX + AI names) = massive concurrent equity supply. Silly to add risk ahead of that.

NEXT WEEK / WHAT TO WATCH

- Core PCE: already telegraphed by CPI/PPI. Non-event.
- Treasury auctions (2s, 5s, 7s): ongoing short-end supply pressure.
- War risk: resumption of hostilities → bearish equities, bullish oil, bearish bonds/gold, bullish USD. Buy assets only at materially lower prices.
- Bitcoin & gold both unusually weak — possible leading indicator the equity market is missing. Worth monitoring.

BOTTOM LINE

- **Hold.** Do nothing this week. Wait for 3% real rates before reallocating to duration. VWAB provides existing long-end exposure.
- **Watch:** 2–4yr breakevens. If they drift and Warsh doesn't respond, the long end breaks and 3% arrives.