2 GRAY BEARDS | Week 178 Summary

May 30, 2026 | Bonds, Oil, Warsh & the Equity Bubble

BOND MARKET — IN NO MAN'S LAND

The central problem framing the episode: bonds are range-bound and can't break higher in yield. Real yields on the 30-year TIPS are sitting around 2.17%, repeatedly testing higher but failing to hold. Both Nick and Andy pin this on two unresolved uncertainties — Warsh's Fed policy intentions and the trajectory of oil.

- 30-year real yield ~2.17%; market has wanted 3% but isn't getting there.
- Carry math keeps suppressing short positions: Fed funds at 3.65% vs. 30-yr at ~4.90–5.00% = ~120bps/day cost to hold a bond short.
- Without a credible tightening catalyst, shorts get squeezed and yields mean-revert — producing a persistent seesaw with no resolution.
- Bond market direction remains almost perfectly correlated with oil. No oil clarity = no bond clarity.

EQUITY MARKET — DISCONNECTED AND FLOATING

Andy frames equities as exhibiting bubbly behavior globally over the past six weeks — not a US-specific phenomenon. Developed market equities ex-US, ex-Korea, ex-China, ex-EM are up ~15% YTD, outperforming the S&P by 4% in dollar terms, with little currency movement to explain it.

- The conditions that would justify this rally — higher growth, easy monetary policy, fiscal stimulus, declining volatility — are largely absent.
- Andy's three-choice framework on bubbles: fight it (wrong), chase it (requires being fast and nimble), or sit on the sidelines (where most serious money is).
- Nick's observation: every hedge fund and institution he tracks is underweight equities vs. benchmark. Not one is overweight.
- Andy's absolute return clients: "long small" — trading equities but not holding large positions in either direction.
- Benchmark-sensitive RIAs are hunting for ways to keep up, but most have given up chasing semiconductors specifically.
- **Bottom line:** While bonds stay range-bound, hard to be short equities. Buyable dips is the operative regime.

OIL & THE WAR — CONTROLLED DRIFT

The war is providing a persistent uncertainty floor under oil prices. Andy's read on the geopolitical dynamics is that neither side actually wants hostilities or a deal — both benefit from kicking the can.

- Daily headlines about a deal, daily non-events. Sides are widely apart; no one's interested in escalating.
- True resolution scenario: Iran becomes trusted Gulf partner → oil glut in 6 months → oil prices dramatically lower → bond prices dramatically higher. Market is not pricing this.
- Long-dated oil futures still well above pre-war levels — no expectation of sudden supply normalization.
- **Base case:** Drip/trickle of oil, ongoing uncertainty, supply never fully restored. Result: bonds and oil go sideways for an extended period.
- Scenario matrix: oil \$50–60 = both bonds and equities scream higher; oil \$70–90 = range-bound everything; oil \$80–90+ with no deal = bond pressure builds.

WARSH & THE FED — JUNE 17TH IS THE EVENT

The FOMC meeting on June 17th is the next significant catalyst. Both hosts are on hold until they hear Warsh speak directly from the podium — not from pre-office comments.

- Andy's probability of actually hawkish guidance (rate hike forecast): zero.
- **Most likely outcome:** Warsh reiterates existing administration lines — war will end, oil is transitory, AI is disinflationary. Conclusion: no reason to hike, no rush to cut.
- Nick's read: that's curve-steepening. 2-year drops to 3.85–3.90%; long end stays sticky or drifts higher. Equities go "meh."
- Andy's ceiling for dovishness: just restating things he's already said publicly. True hawkish pivot is essentially off the table — he needs to build credibility without triggering markets.
- Key risk: Warsh misspeaks under press questioning. Bond market reaction to a misstep could be extreme.
- Long-term: Andy believes Warsh will acknowledge the disinflationary impact of AI while staying cautious — "inflation is the problem, I'm not worried about jobs, we're not in a rush to cut."

SPACEX IPO

Mentioned briefly as a near-term supply event. Andy's view: it'll likely go fine, precisely because everyone who fears it won't has already hedged ahead of it. Price talk has been revised lower. It's a lot of supply and speaks to the broader CapEx funding burden falling on hyperscalers and frontier model developers.

AI — THE LONG-TERM EQUITY THESIS

Andy provides the clearest framing of what ultimately determines whether current equity valuations are justified.

- The entire equity valuation at current levels is essentially a bet on AI: tokens must be sold profitably to the broader economy, that economy must find them highly valuable, and employment must not explode as a result.
- If any of those conditions fail — tokens can't be delivered, tokens aren't valuable enough, tokens cost too much to produce, or tokens cause labor displacement — current prices are not supported.
- Andy does not think this thesis resolves in 2026. "Talk to me in a year."
- Short-term: without a bond sell-off, the default regime is buyable dips in equities.

CATALYST SUMMARY

Catalyst	Direction	Bond Impact	Equity Impact
Warsh dovish (oil transitory, AI disinflationary)	Curve steepener	2yr falls, long end sticky / higher	Neutral to meh
Oil drops to $50–60 on war resolution	Bull market	Strong rally	Strong rally
Oil stays $70–90 / war drags on	Sideways	Range-bound	Hard to short
Extremely hot NFP / data	Bearish bonds	Sell-off	Negative
SpaceX IPO fails to clear	Risk-off signal	Flight to quality	Negative for sentiment
AI token economics disappoint (long-term)	De-rating	Limited near-term	Significant long-term downside

BOTTOM LINE

Wait for Warsh. Everything — bonds, equities, oil positioning — resolves around June 17th. The regime until then: bonds in a range, oil in a range, equities floating on that ambiguity. Don't fight the bubble; don't chase it either. Stick with what you have and don't lever up at the wrong time.