2 GRAY BEARDS — WEEK 180

June 13, 2026 | Nick & Andy

Positioning Summary

Asset	Stance	Trigger to Change
Equities	Neutral / slight add on dovish	Avoid hawkish FOMC; deploy cash if Warsh not hawkish
Bonds (2yr/5yr)	Cautious; carry play only	Hawkish outcome would reprice short end sharply higher
Bonds (30yr)	Conditional buy	Buy aggressively if Warsh hawkish and 30yr hits ~5.25% nominal
Gold	Cheapened; conditional buy	Deploy with risk assets on not-hawkish outcome
Commodities	Down; conditional buy	Same trigger as gold and equities — not-hawkish FOMC
Cash	Holding; deploy selectively	Not-hawkish = add to all risk; hawkish = patient, wait for entry

Last Week in Review

- ECB hiked rates as expected — fully priced in, no market surprise; ECB now entirely data-dependent going forward
- US CPI and PPI were firm but came in slightly better than feared — minimal asset price impact
- Trump-Iran peace signals boosted markets modestly: memorandum of understanding expected within days, helping bonds and equities
- Bond auctions absorbed without difficulty — Nick describes the market as fairly priced with plenty of carry
- The bond market's comfort is contingent on the FOMC; an unexpected shift in policy tone would change everything

FOMC: The Only Thing That Matters This Week

- All eyes on Kevin Warsh's first FOMC press conference — the market is priced for a nothing-burger
- Base case (80–90% probability): No change in policy, no dissents, Warsh repeats his known framework

Warsh's known framework (per Andy):

- War ends, oil falls — disinflation follows
- Trimmed mean inflation is less problematic than headline suggests
- AI is a long-term structural disinflationary force
- Short rates should come down; balance sheet should shrink
- Fed communication — forward guidance, dot plots, member speeches — is excessive and should be reduced

Scenario Analysis: Three Outcomes

1. Base Case — Warsh Repeats His Framework (80–90% odds)

- Market reaction: neutral to slightly positive; mild bull steepening, equities modestly up
- Action: Deploy a few percentage points of cash into risk assets — equities, gold, commodities
- No dramatic repricing; this is already largely in the price

2. Dovish Surprise — Warsh Leans Toward Cutting (low odds)

- If Warsh signals dissent in the dovish direction or explicitly forecasts cuts
- Market reaction: very bullish for equities, significant bull steepening of the curve
- Action: Add to all risk assets aggressively

3. Hawkish Surprise — Warsh Pivots to Volcker Mode (single-digit odds of full hawkish shift, but ~20% that hiking cycle is live)

- If Warsh signals hiking cycle or dissents hawkishly: “We’ve missed our target for six years. We’re hiking.”
- Market reaction: very negative for equities and growth assets; 2-year sells off hard; even gold and commodities take a hit
- The one safe play: long-term bonds — though they won’t escape clean either
- Nick’s target entry: 30-year nominal yield ~5.25% — that’s the buy
- Andy’s take: a one-and-done hike wouldn’t be believed; if inflation is real, 25–50bps won’t do it
- Action: Watch and wait; patient buying favoring the long end

The Dot Plot Wild Card

- Nick assigns ~50/50 odds that Warsh eliminates the dot plot
- Andy’s take: dot plots are noise; he’d welcome the change but doesn’t expect a dramatic announcement
- Likely outcome: Warsh acts as if forward guidance has been eliminated, even if he doesn’t say so explicitly
- Market impact if dots are killed: modest — Andy estimates ~5bps higher in 10-year yields and perhaps half a multiple point off equities
- Analogy: like the SEC going from quarterly to semi-annual reporting — less information, slightly more risk, not a regime change

Bond Market Dynamics

- Current market comfortable — plenty of carry, auctions going fine
- Real rate target: 3% on the 30-year — that’s the threshold both hosts use as a trigger for broad asset deployment
- Two-year note: currently reflects no-cut, no-hike environment; an inflation surprise forces a reprice
- Andy: “If inflation is at 4%, buying two-year notes is a zero-real-return carry trade. No real reason to own them outright.”
- Nick: if Warsh turns hawkish and yields spike, the long end becomes the attractive buy — potentially 5.25% nominal

Practical Actions

- Not-hawkish outcome: both hosts deploy cash into equities, gold, and commodities by increments
- Hawkish outcome: neither host adds to risk; both wait for better entry points, especially at the long end
- Post-presser timing: Andy and Nick plan to communicate and act immediately after Warsh’s 2:30pm press conference — expect deployment decisions by ~3:00–3:15pm
- Key principle: know your playbook before Wednesday, because Warsh could say something entirely unexpected

Notable Quotes

“If he actually repeats everything I said, is that positive or negative for assets?” **— Nick**

“I think it’s neutral… slightly bull steepening, equities up sort of thing. But not really much.” **— Andy**

“If they’re really hawkish, I think the two-year note’s gonna sell off pretty hard.” **— Andy**

“All we can do is be prepared. We know what we want to do on whatever the outcome is.” **— Nick**