2 GRAY BEARDS | Week 185 Summary

July 18, 2026 | The Real Yield Trigger: Why 3% and What Breaks the Wait

LAST WEEK RECAP

Andy returns after his daughter's wedding in Ireland. Both CPI and PPI came in meaningfully softer than expected across services and non-services, yet bonds barely reacted — the curve steepened just three basis points on the week. Nick flags the flare-up in the Iran war as a possible complicating factor before he'll draw firm conclusions, but the bigger signal continues to be real yields grinding higher, consistent with the multi-year thesis this program has been running.

WHY REAL RATES ARE THE ANCHOR

Andy steps back to first principles: short-term noise — Fed policy, oil, geopolitics — moves asset prices day to day, but long-term wealth is built on real (inflation-adjusted) returns, since matching inflation doesn't make an investor richer. A long-term TIP is the one asset where the real return is essentially known rather than estimated, which makes it the reference point every other asset gets priced against on a risk-adjusted basis.

Because of that linkage, real rates matter beyond the bond market itself — when TIPS offer an attractive real return, competing assets tend to reprice around it too, even if not simultaneously (bonds can stay rich or cheap to stocks or gold for a while). The house view: higher real rates typically slow the economy, which favors bonds over stocks — a timing dynamic layered on top of the core real-return thesis.

THE 3% TARGET — A GOOD MISS SO FAR

The desk has held a 3% real yield target for a while now, watching it tick up to 270, drop to 250, back to 280, then to 260 — consistently stopping short of the level. Nick is candid: anyone who bought long-term TIPS on an earlier signal would be underwater today. Patience has been the correct call, and the position remains unbought — but the gap to target is closing. Real yields hit roughly 292 intraday last week and closed at 289.

THE RISK: DECADES HAPPENING IN HOURS

Nick's core fear, drawn from years of trading bonds, is that fixed income can move violently and without warning — a bad auction, a technical break, or a buyer's strike triggered by concern over the sustainability of U.S. fiscal policy. Given the current geopolitical backdrop and the fragile fiscal position, a real move in nominal rates could push real yields straight through 3% and beyond.

The base case remains a steepening bias — a strong economy and heavy fiscal borrowing keep the long end pinned — but the tail risk is real. The reward for waiting is that if real yields do overshoot to 3%+, the same conditions that pushed them there should eventually slow the economy and bring real yields back down, rewarding the entry.

TWO KINDS OF WRONG

Andy distinguishes short-term wrong from being fundamentally wrong. Short-term wrong might cost 10 basis points of relative performance if yields rally back after the target is reached — a cost the desk is comfortable absorbing. The bigger question is whether real yields could fall 50–75 basis points from here. That would require a significant disinflationary, anti-growth shock — the economy rolling over on both a nominal and real basis. Andy is clear that scenario will happen eventually, but sees no evidence it's imminent, and notes that in that scenario equities would get hit hard as well.

THE PLAN: SCALING IN, NOT GOING ALL IN

Both hosts reject an all-in bet at exactly 3%. Andy is candid that if real yields actually trade at 3%, the same forces could push them to 3.25% or higher — as a trader he'd be nervous bidding at the round number, but as a long-term investor the plan is to scale in systematically.

- Begin buying 5% of the target allocation at each level: 3.00%, 3.05%, 3.10%, 3.15%, 3.20%, 3.25%
- Build toward roughly 30–35% of the portfolio in long-term real yield (TIPS)
- Add ~5% in long-term nominal duration (e.g., VWOB)
- Allocate 20–25% to gold and commodities, expected to cheapen as real yields rise
- Add the remaining balance to equities once they bottom, completing a portfolio built for the years ahead

IGNORING THE BUBBLE DEBATE

Andy addresses the ongoing noise around whether equities — and AI in particular — are in a bubble. His answer: it doesn't change the plan. A core holding of long-term TIPS at a 3–3.25% real yield is attractive enough on its own that it lets the desk stay relaxed about the rest of the portfolio, regardless of how the equity debate resolves.

THE RISK/REWARD CASE FOR WAITING

With real yields eight to nine basis points from the target, Andy stresses the number itself isn't magic — 3.5% would be fine too, and if the level runs away without triggering a purchase, that's acceptable. Buying at 292 today isn't necessary because the downside of waiting is limited: if yields back off from 292 to 270, that's a minor opportunity cost, no big deal. But if yields reach 3% or 3.25%, the entry point is compelling enough to be close to a guaranteed long-term win. That asymmetry — small cost if wrong, large reward if right — is the entire basis for continuing to wait.

Closing note: after weeks of what the hosts acknowledge has been a patient, occasionally repetitive single-minded view, the position is close. The plan remains unchanged from day one — the only open question now is which trigger levels get hit first in the weeks ahead.

Source: 2 Gray Beards Week 185 Transcript — July 18, 2026