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Hello, good morning. Today is the 18th of July, and we have Andy back with us after his daughter's marriage in Ireland. How was it, Andy? Fantastic. Excellent. Great ceremony. Let me just go through very quickly what happened last week. We had both CPI and PPI, and both were significantly lower in both services and the non-service sector than expected.

And what the mar- did the market do in bonds? Absolutely nothing. The yield curve steepened by a whole of three basis points. Now, it could be as a result of the Iranian war, which has flared up again, so I don't want to be absolutely, I don't know, dogmatic about it. But real yields continue slowly to move higher, which is what we've been expecting for really three years now, Andy.

Let's talk about what we want to see to change our portfolio allocations, because I think it's important. People keep on asking me, "When will you pull the trigger? When will you pull the trigger?" And I keep on saying, "Let's be patient," because we've been right. Ever since we started, we've been saying buying long duration at the moment makes no sense.

At some stage it will make sense, but for the time being, with the situation as it is, with the budget deficits as they are continuing until who knows when, and with the current situation that the corporates are borrowing huge amounts of money to invest in data centers, which naturally is on top of the budget deficit, we still think that the risk reward is to wait for higher real rates.

Andy, let's say what we think, what level we want to get in and how, and what would make ch- make us change our mind that we are wrong. Because real rates keep on getting towards the 290 level and plateauing out in 30 years, and we never seem to get to our 3%. So let's talk about what we think is happening, what the risk reward is, and when we'll pull the trigger.

Sure. And let me just step back for a second and say, why do you guys care about real rates? So I think the, the... We talk a lot about daily, weekly, monthly sort of things that are happening in the market, policymaker actions the price of oil, war, geopol- political issues. All of those things are relevant for asset prices and the asset prices swing around.

But the underlying long-term value that one gets as an investor when you, the reason why you are investing, like the, the whole reason is to earn long-term real returns. Why real returns? Because inflation-adjusted returns and nominal

returns don't help you with your ability to consume because m-ma- matching inflation Doesn't make you richer, doesn't allow you to consume more.

What allows you to consume more and get-- and build your wealth is long-term real returns. And every asset has a long-term real return, an expected long-term real return. The only asset that you can reasonably believe that you know what the long-term real return is, like you don't have to guess what it is a fixed income asset that is inflation protected, which is a long-term TIP.

And so we've been talking to you about that yield. Now, one last concept before we get into the, the issue, which is

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has this known real return. And it would be crazy to think that all assets don't look at each other and say, "Hey, what's your real return gonna be? Hey, what's your real return gonna be?" And that investors don't constantly look at all the potential real returns they could get and compare them and choose the ones with the best one.

And so it's likely, like your base assumption in life should be that whatever the real return that's reflected in a TIP should be the same real return on a risk-adjusted basis you get in owning anything else. That should be your expectation. And so the point of this s- thing is we care about real rates a lot, long-term real rates a lot because we are a long-term investor and because when real returns are attractive in one market, they're likely attractive in other markets.

Now, that doesn't have to be instantaneous because sometimes the bond market can be rich to stocks, sometimes it can be cheap to stocks. Similarly with gold. But that, that's-- and we have some timing thoughts on that because higher real rates often slow an economy which favors bonds over stocks So we have some timing issues, but the big takeaway here is we have, we are laser-focused and have been since this program began on finding a level where we can get long real returns at very attractive levels, and we're damn close.

Yeah. This is the first time that we have... We've told you about our target of 3% for a while, and it's, it's ticked up to 270 and then dropped to 250, ticked up to 280, then dropped to 260. And it's we've been right. We've been saying, "You don't need to buy them yet." Why? Because they just keep coming back to us, keep going higher.

If you had bought long-term TIPS, you're underwater today. Yeah. So it's been a good miss, but we are laser-focused and absolutely want to buy, and we're getting close. So let's talk about where we are and what our fears might be to the upside, because that's how you work out the risk reward. My personal fear, and I've seen this several times throughout my career trading bonds, is that there are hours in which decades happen in bonds for whatever reason.

The reason might be that an auction goes particularly badly for whatever reason. Some are technical, some are fundamental. The market just goes into a buyer strike because they reckon that the underlying fiscal position is unsustainable, and that tends to happen all at once. And as I said, that is when decades happen in hours in the bond market.

It's entirely possible that given what is going on geopolitically in the world, and more specifically the fiscal position could get worse at any moment in time, that we get an absolute blowup in the long end. And we've been telling you since we started really, that duration is not a great bet at the moment.

Why? Because the economy is strong and therefore, you're not going to get a anything but a steepening of the curve at times. Yes, it'll flatten when, the, when certain circumstances are in place. But really the tendency is for a steepening because the long end is hemmed in by A, the strength of the economy, and B, the fiscal position of the United States.

But you could get a real move up in nominal rates, which would take real rates straight through 3%. It's entirely possible. That's the risk. The reward is buying it at that level, because if that level is reached and we go through it, you can bet your bottom dollar that sooner or later that slows down the economy and real rates come back down.

So that is the kind of balance that we're trying to strike. If we are wrong, and, last week we saw real rates reach around 292 and they closed at 289. If we are wrong, we are laser-focused on being wrong, but when are we going to be wrong, in your opinion, Andy? That's the big question.

Firstly, there's a question of how wrong. And so we've been, we've been telling you, "Hey, we want to get 3%." We've reached 280 or 285 or whatever it is, 292 today, and then we didn't get our 3%. And so there's being wrong short term, which, might cost us 10 basis points, meaning you might have been better off buying at 292 because they rallied to 282.

That's short-term wrong. Yeah. And we've just been patient. We don't care about that. The big question is what happens if we're really wrong? Can real yields fall 50 basis points, 75 basis points? The answer is of course they can. But the circumstance for them to fall that much would have to be A significant disinflationary anti-growth move.

Essentially, the economy would have to roll over in both a nominal and a real basis. Listen, that is gonna happen one day. I don't know when, I don't know when- Yeah ... but it's gonna happen one day. But- But- ... not today. And- Yeah. We are, but we are nowhere near that situation, right? And by the way, in that case, equities would get crushed.

Collapse. So it's important to understand that if we don't buy 3%, there's not much downside. Now the real question is what happens-- Like both Nick and I are a bit like hey, 3%, 3%, 3%." Do you go all in at 3%? The answer is no. If we get... Like I've done this a long time, and I've had levels like this before where I wanna, put my whole net worth into something And it goes significantly worse.

Totally. The moment it- if it, if we trade 3% real yield, we're trading three and a quarter. Maybe not quite, but I am genuinely nervous that the circumstance that would get us to 3% will drive real yields into our, in our faces. And so as a trader, man, I don't wanna bid 3% anymore. But as a long-term investor, 3%, three and a quarter, 3.10, 3.20, let's say we scale into it, which is our- Absolutely.

And that is our plan, and we can just say that we're going to follow this plan. At 3% we start buying 5% at each level, 3, 3.05, 3.10, 3.15, 3.20, 3.25. Why? Because we know that kind of real yield is bound to take, might take some time, but it's bound to slow the economy. And once we have built up that position in real yields and we have something like 30%, 35% of the portfolio in the real yield, then we can start looking for places to add to commodities and bo- and gold, and also to equities, because th- that real yield should have driven them down considerably in price, both gold and equities.

And we can build a portfolio which is about 35% in real yields, maybe 30% in real yields and 5% in long-term nominal like VWOB, and then 20% to 25% in gold and commodities, and then the balance, once equities hit bottom, then we can actually add the balance in equities and have a portfolio which should be good for years to come.

Absolutely. And we are, there's a lot of focus on, "Hey, is the equity market in a bubble? Is the bubble popped? What's going on with AI?" I don't care. I'm, sure

I care. But what the, the, the pleasant core portfolio holding of holding long-term TIPS at 3%, 3.25% real yield just lets me be totally relaxed about adding anything else to my portfolio.

So then the question is, "Okay, Andy, you're eight basis points, nine basis points away from your magic number." Firstly, it's not magic. It could go to three and a half. I still want it. I don't care. I just, you know what? It can go there without me. I'm happy to have it have my 35% position then I'll just watch it.

Why not buy at 292? And the answer is There's not a much-- We're not gonna miss anything. Like the, unless the economy tanks, we're just not gonna miss anything. So don't-- We've been patient and perhaps pretty boring to our audience with our single-minded view that we w- are gonna wait. Now we're getting close.

If we back away today, then you can be angry. But we're in it, and we're gonna wait until we get to our level. Let me put that in risk-reward terms. If it backs off from 292, it's going to 270, which is no big deal, right? It, y- you've missed a little bit, but it's no big deal. But if it gets to three, three and a quarter, you are getting in at such fantastic levels that are almost guaranteed to make you a lot of money long term, and that's your risk-reward.

And I think it- Worth the wait ... the risk-reward pays to wait. That's what we're saying. Absolutely. Excellent, Andy. Thank you very much indeed. I hope that you've got a view of how we are thinking and why we're thinking it, and you understand the risk-reward that we are trying to play, and that is how we intend to invest from now on.

We've always intended it to do it this way, but what our triggers are going to be in the next few weeks. Thank you.