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Hello, good morning. Today is the 25th of July. We have an exciting week in front of us and really quite a boring week behind us. Let me very quickly recap what happened for you, and then we'll pass on to the main topic, which is next week's FOMC meeting. So we had a- another week in which bond yields rose.

We had the two-year go up by about 14 basis points, about 12 in the 10s, and about eight or nine in the 30s. So there's just no stopping the increase in bond yields and the increase in real yields. We are very, very close to our initial target for allocating in the 30-year reals, which is 3%. We keep on repeating that.

We closed at 297. The high was like 298, so not quite there, and we see no rush to invest there. We will be patient, and I'll talk to you about the exact levels later on in my bit. Next week, you know, we, we have more auctions, so n- no doubt some of the move this week was as a result of anticipating those auctions.

No change, you know. The, uh... There's so much supply in the bond market that the bond market really has indigestion. And also, what is happening is that every single data point that comes out, and last week really the only one we had was the weekly claims, shows a strong economy. There's no two ways about it.

It was the lowest print of this cycle, and therefore, there is absolutely no reason to think that the economy is weakening in any significant way. In fact, quite the opposite. Oil keeps on going up because of the Iran situation. That weighed on bonds, bonds weighed on equities, so equities closed roughly a percent lower.

But there is no panic in equities whatsoever. The equal weight RSP is, you know, not going down. It's just rotation among sectors in equities. Some sectors are getting hit because of the bond situation, that's the high beta sector. But otherwise, really nothing, no panic whatsoever in the equity market.

They still anticipate a very good growth period for the economy. That's really basically what happened last week. Andy, anything you'd like to add to that? Uh, there was a think tank that came out with a probability that they would do 50 basis points, and that weighed on the bond market as well. Now, let's talk about the FOMC and the probabilities of zero, 25, 50.

What are your thoughts? And then I'll give them my thoughts because we're slightly differing in how we would approach the situation. Yeah. I'm trying to resolve our differences. We've talked about it separately, um, while we're preparing for this call, and I think we agree on what they should do. Like at a basic level, inflation is too high for 65 months.

And it's a choice. And what they sh- I personally think what would be good f- what they should do is kill inflation for God's sakes. So then you say, "Okay, do they think they should kill inflation?" And I think they say they think they should, and then they act, and this is the Powell Fed, acted quite the opposite for ever since they started the cutting cycle, inflation has stayed high.

They've made excuses, all different sorts of excuses, all sorts of transitory language. They haven't done their job. So if I were them and the new guy is the new guy, and so he has a chance of like write- rewriting history, what I would do is kill inflation. That's my job, particularly while the economy is crushing it, while jobs are strong, while-- strong in the way they are.

Low unemployment, full, full-- relatively full employment, strong growth. Let's do something. So we all know what they should do. Now there's a question of what tools they use to pull on that. I personally think the only way you can kill inflation without-- let-- listen, you could raise interest rates, short-term interest rates 3%, 4%, 5%.

That'd do it. But 25 or 50 basis points or like some insurance tweaks that even the most dovish pe- uh, hawkish people on the committee are calling for, like the most hawkish people are calling for three hikes So they're not trying to kill inflation, they're just trying to put some insurance hikes in. So that's not gonna do it.

If you wanna kill inflation, you have to kill asset prices, and they don't wanna do that. So that's what they should do, and I think we agree on that. Let's kill inflation. And so the next step is if you think what they should do, the first thing they could do is raise 25 basis points. That's not gonna make a difference.

Raise 50 basis points. To be honest, that's not gonna make a difference either. It's just a front- It would send a strong signal Maybe. I think it would send a signal, and this is where I come to what I think they will do. To get a 50 basis point hike, the only one that's gonna make that happen is Warsh.

Nobody else is gonna say, "Hey, we need to raise 50 basis points." Many of the committee, the voting members of the committee, would get massively

whipsawed. People like Bowman, people like Waller, who have become a little bit more hawkish but are still on the dovish side. And all the governors that have been sort of stick-- And for that matter, Powell, who's a voter, they're just gonna be-- really struggle to raise 50 basis points.

They're gonna look at the chair and say: "What the hell are you doing? You are being rash and trying to make waves." And I don't think that's the look the new chair wants. I think the look the new chair is striving for is, "We're gonna get the job done and we're gonna do it in a serious way," task force, et cetera.

So I think there's no chance of a 50 basis point hike at all because it would just be a irresponsible act by Warsh. Even though he should do it, it would be just a disaster. Forget what Trump says So is there a possibility they increase 25 basis points? So then I go back to, how you normally handicap the Fed.

You look at the cover they have to cut or hike. You look at what they've been saying, what they have saying, and what the data said. And the data says inflation prints came in extraordinarily cold last month. So then you say, "Oh, well, let's see. Oil prices have gone back up." And you think what if they go, you know, you hike like the ECB did, hiked, and then immediately oil prices fall \$30 in your face.

You look like an idiot. So you don't trade based on the oil price. You don't set monetary policy based on the spot oil price. So when I look at that, I see virt- who knows? Anything's possible, but I think a, a cut is m- a, a pause and task force in the commit- in the, uh, on, just a repeat of the t- the press conference of Of, uh, June and the Senate Henr-Henry Haw- the Humphrey-Hawkins testimonies that they did in early July.

Just repeat repeat, task force pause until after the midterms. Yeah. Now I, I actually agree that is the highest odds and that is actually what the market is pricing in. And, as the most likely outcome. What I would do is I would do a Saturday night massacre, a la Volcker, but that's just me.

I'm not saying and I'm not betting that is what they will do. So no, we agree that to kill inflation, they need to start a hiking cycle, which is probably at least a percent, at least. And that would get- No, no. My view is it could be you could raise rates 100 per-- 100 basis points, and if the stock market accepts it, you're not gonna make any effort at all to kill inflation.

Yeah. Although, we'd have to argue how likely is the stock market to just accept it because, you know, it, it, it, the first reaction would not be up, let's say. That's

true. That so there we are. So that's all we can say is that the odds favor no action. I think 25 basis points is the only possible action that they will do, but that is less likely than the, um, than nothing.

And to me, 25 basis points is actually showing nothing, okay? It's telling the market we are starting a hiking cycle, but we're not serious. Because if we were serious, we would really hike And do at least 50. And the reaction of the bond market to a 25 would be negative. Uh, a-absolutely negative because, A, it's a signal that they're starting a hiking cycle, therefore why buy the short end?

Because, you know, sort of even if it rallied, there'd be a mass of sellers. I would just slam it. And, you know, if, if the point is to get to stabilize the long end, it just not gonna do it. Therefore, I just don't see the point of it. So I think that I have to agree that it's a nothing and the bond market just keeps on doing some sort of a small steepening on a nothing.

And finally we get filled on our 3% and then higher step up in the 30-year real yields, and they probably continue all the way to three and a quarter bit by bit. So that is, to me, the most likely outcome. Do you think the dollar benefits at all? I, I think that even these higher real yields are not really going to benefit the dollar and therefore we don't have to reconsider our allocation to international equities.

Do you have anything, any thoughts in that respect? For me, for me versus the euro and versus the pound and versus the dollar is pretty n- Yeah. Neutral ... versus, versus the yen. You know, the yen is, is very much, is less about economics right now, more about trying to time whether the intervention will happen or what size the intervention will be or if there'll be an intervention.

So I think the dollar strength versus the yen is more of a game theory thing than an economic driver. So I could imagine, if real yields continue to rise, I think the one thing that you can count on is gold continues to weaken. But is the dollar gonna strengthen versus gold, but not necessarily versus other currencies.

So basically what we're saying is the, um, you know, the, the playbook remains the same. We start buying at three, we end up at three and a quarter, so we do it in six small increments of 5% apiece. Uh, we basically wait for gold to have weakened You know, as a result of these higher real yields, when that happens, we add to the gold allocation.

And finally, if equities have gone down enough as a result of these high yields, then we can add to equities as well. I think that's an excellent playbook right

now. That's, that's the playbook, and it's unchanged, and probably is going to remain unchanged whatever they do on, uh, on Wednesday, because either it's not gonna be enough or it's gonna be nothing.

Yep. Is that a fair summary, Andy? Yep. And now the equity market, with one caveat, the equity market is going to be, uh, driven a lot by, in the very short term, by the next few, um, days of earnings. Earnings have been solid as expected. Like, everyone knew these earnings were gonna be great. They were great. In fact, they surprised to the upside.

Now, that wasn't a surprise. That was just the normal thing that happens when earnings are guided by companies to, so that they can guarantee a beat, and that happened as always. But the market didn't like it. Google's down substantially from its earnings, and Intel went up 10% on spectacular earnings and then reversed and fell 18%.

So- And next week we have more big ones ... next week we have the rest of the groups. The, we, you know, we don't have Nvidia until, August, but you're gonna get a significant amount of earnings. So the equity markets are gonna chop around. But the big trend of higher real yields that haven't yet bottomed is going to, to me, prevent me from chasing equities even if earnings turn out great.

Understood. Well, in any case, you'll get an email if we change our mind, right? If we see something really significant from the FOMC, which we doubt, we will send you an email immediately. Otherwise, I'll now go through the portfolio and give you the exact levels that we will be buying the real yields at.

Thanks, Nick. Thanks, Andy. Bye-bye.