PLACE YOUR TRADES

KEY TAKEAWAYS

Special Guests: Randy Woodward and Remi Tetot

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CHIGRL'S KEY TAKEAWAYS

Randy Woodward:

1. On the landing camp.

He believes we will have a very hard landing as he usually prepares for the worst. He believes that they are in the process of making a pivot.

2. On Powell and his dovish position.

They are more knowledgeable than people give them credit for. Sending John Williams out Friday unexpectedly was damage control. We are in the phase when you turn from one direction to another, where the markets can bully the Fed. Over the next few months we will see who is in charge in this realm, he believes in this cycle it is the markets.

3. On whether or not the markets are getting ahead of themselves.

No one really knows long term but focusing on the near term is important. Right now the market is pretty much saying for March we will see futures trading 84% showing that it will start in March and the Fed has said the opposite, that they will not start that soon. We still have quite a bit of time but the severity is there and the market is expecting a lot of cuts next year. The Fed is trying to sell the idea that it is going to be two or three. Is this a sustainable rally? Yes, he believes it is. Banks are starting to see more cash and invest. We are seeing loss trades and have seen 200 banks have gone ahead and taken a loss on their AFS portfolio and reinvested that money. He thinks the trend lower is in, which is what the inverted curve has always been telling us and a recession is coming.

4. On Yellen issuing bonds, Fed cutting rates, and fiscal spending and how that will affect inflation.

He is totally in the Lacy Hunt camp. We haven't seen M2 drop like it's dropping since the depression. We created a ton of money during Covid and now we are trying to find ways to take it back. He sees deflation as inevitable which is much scarier for the Fed than inflation. People tend to not understand that fighting inflation is not about bringing prices down.

5. On the muni markets and citibank shuttering its muni business?

He is not sure why they shut it down but based on his experience it is fairly common. The muni markets seem very strong with a lot of good issuance and demand.

6. On the commercial real estate market.

He doesn’t see how CRE can’t be a complete dumpster fire. With the numbers he is seeing and the way properties are valued, there isn’t another result. People need to understand that it doesn’t trade the same as residential real estate. Commercial real estate is about income flow and the cost of maintaining the income flow. The value of the property is based on how much it costs you to service your debt versus income flow and a cap rate. Cap rates are basically doubling and the problem is that people can’t get the money from that property to pay the loan off. A couple months ago an important combined directive came out saying that they see the stress in CRE and gave examples of how to extend a loan, which they would normally frown upon but are accepting now due to the known stress. He believes that this was done with the knowledge that they will be cutting rates next year as it is the only option to alleviate some of the pressure. This is not a solution and we will likely not see the numbers of the past again.

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7. On residential real estate.

He feels that the market now is very similar to 2006. There is a large number of young people becoming home builders getting in over their head with massive production. The homes go up for sale and face continuous price cuts as they stay on the market.

8. On the maturity wall coming for banks unrealized underwater bond portfolios.

They are being saved right now. Unrealized losses have already come down quite a bit in part from seeing tenure go from 5 to 390. Banks need time, all the bonds spoken about go to par. The idea that they just bought bad bonds is nonsense, it is just duration and what happens when you raise rates as fast as they have.

9. Final thoughts.

He believes that everyone should go read Remi's piece "The Fall of a Giant" highlighting his experience with crypto and real vision. He believes this is important to understand investment and different aspects of his experience. He encourages people to be cautious and wary with futures as there are always hidden aspects.

Remi Tetot:

1. On his piece titled "Memento Mori" and his opinion on the S&P 500.

In history when the Fed hikes the stock goes up, and this has happened every time. He was in the wrong camp this year and expected the Fed to pivot early.

2. On which camp he is in, inflation, deflation, or stagflation.

He believes we will see a hard landing. The cost of financing is at a much higher rate and the problem for the Fed now is how long they will keep it above a certain level. Even with a cut we know that with the impact of rate there is a lag and usually takes some time for the market to absorb it. We haven't felt the pain of the higher rates yet which Powell warned about. There is a two year lag which means that the real impact of the Yen will be seen next year on the market.

3. On the European markets and how they compare to the US.

The dynamics have been the same and it looks like a recession to hit. For inflation, in the end it's all about the velocity and how it came up. It has come up very quickly and he believes it will go down very quickly as well, making it very difficult to avoid deflation.

4. On hard assets, specifically gold.

He believes that next year gold is set to break the 1250-1270 range. We will most likely see a cycle of cutting rates and after that we should see money printing, and when this happens we will see more value in gold or bitcoin investments. What effect would this have on the dollar? We will see rises in gold, bitcoin, and other investments but this will be a relatively short term trend as we have seen in the past that it is not sustainable. He doesn't see the dollar weakening as he sees it rising as well.

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5. On how hard equities will be hit by a recession.

100% of the time with a recession you have the market that corrects. He thinks we are looking at similarities from the 2000’s of up to around 30%. Is there a specific quarter we should be looking at for this? It depends on when they cut rates and the reasoning behind the rate cuts. They will then try to contain any collateral damage. For the market to bottom he would like to see the ISM get weaker and he sees this happening in the first quarter and feels it will be quick. The market really turned around on October 26th when Yellen announced that they were going to use short-term bills instead of long-term debt and if you look at charts around those dates all of them were about to break. They managed to turn things around by using the trick of short-term debt and he believes that will work until it doesn’t.

6. What data and charts should be watched right now?

He has been focusing heavily on US consumption as we are told that the US consumer is strong and the debt service is much lower than it was in 2006. The reality is that if there is a recession we must look back and use data to be more careful. When you look at the structure of the debt, a lot of consumer credit has been added since 2008 through more short-term debt. This can backfire if we see unemployment rates and things start to move up. Delinquencies are important to watch as well and we are seeing student loan delinquencies rise. He is watching unemployment rates closely as well.

7. On the housing market.

The weakening conception is obvious. With the rise in prices and financing costs from Covid, the sales have lowered. With people not buying homes, they are also not buying appliances, technology, and gardening materials also affecting the retail market.

8. Final Thoughts.

He is very cautious right now and is becoming more skeptical. With the exception of Covid, we have not been through a recession with all of the tools we have now to communicate that we did not have in the past. We have a new flow to reach people very quickly that may have helped prevent the 2008 market crash. He is positioned in uranium and nuclear and believes nuclear will really come back. He is also heavily focused on cyber security with the world becoming more digital and more data being generated, he believes cyber security is a great long-term investment. He is also looking for signals of the market correcting.

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