Summary & Transcript

Michael Kramer

1. Strategic Actions and Decisions

- **Analyze Treasury yield technical patterns: The 30-year Treasury yield is forming an ascending triangle pattern that could push yields toward 6%, alongside rising global rates ****.**
- **Monitor bond market volatility and real yields: Observe the VIX TLT and Move Index for volatility spikes while evaluating upward rate risks on yield-sensitive assets like TLT and TIP ****.**
- **Assess FX and macro risks: Evaluate the Japanese yen's potential move toward 200 via an inverse head-and-shoulders pattern alongside a strong dollar index ****.**
- **Prepare for mean reversion in equity correlations: Track record-low three-month implied correlations and sector dispersion to hedge against potential market unwind post-earnings season ****.**
- **Rotate capital into beaten-down value and software names: Reallocate capital away from overstretched semiconductor names into discounted platforms like Intuit, ServiceNow, Cboe, and healthcare AI plays like Illumina and Grail ****.**

Executive Summary

Market focus is shifting from broad directional index sentiment to extreme underlying sector dispersion. Overconcentration in semiconductor and AI trades has pushed single-stock implied volatility and index correlations to historical lows, signaling an overstretched market vulnerable to post-earnings mean reversion. Concurrently, global long-term yields, real rates, and foreign exchange risks (particularly in the Japanese yen) are breaking out, posing understated headwinds for risk assets. Leadership should de-risk high-valuation tech holdings and reallocate toward cash-flow-resilient software, market infrastructure platforms, and healthcare AI technologies trading at attractive historical valuations.

Key Takeaways and Practical Lessons

1. **Global bond yields and real rates are trending higher across jurisdictions: Upward pressures on US long bonds are reinforced by rising yields globally (e.g., UK, France, Korea) and elevated term premiums.**
    - ***Practical Lesson:*** **Reduce long-duration fixed income exposure and prepare balance sheets for sustained high borrowing costs.**
2. **Equity market concentration in AI and semiconductors has reached extreme levels: Implied correlations between individual stocks and the broader market are at historic lows, leaving indices fragile to a unwinding of the long-semi/short-software trade.**

- *Practical Lesson:* **Avoid initiating new positions in momentum-heavy AI semiconductor stocks and evaluate downside put hedges before earnings season ends.**

3. **Macro currency shifts present underappreciated risk: The Japanese yen shows technical patterns suggesting further depreciation, coinciding with a broad dollar index standard bull flag that creates headwinds for commodities like gold.**
   - *Practical Lesson:* **Stress-test cross-border supply chains and international revenue exposure against a persistent high-dollar, volatile-FX environment.**
4. **Software and platform stocks with high pricing power offer strong asymmetric upside: Enterprise platforms with high retention and price-setting ability (e.g., Intuit, ServiceNow) are trading near multi-year valuation lows.**
   - *Practical Lesson:* **Look past short-term AI disruption fears to accumulate high-margin, cash-generative software businesses at discounted price-to-sales multiples.**
5. **Exchanges and early-stage healthcare AI applications offer long-term secular growth: Derivatives volume expansion benefits exchange operators like Cboe, while blood-based early cancer detection via AI (e.g., Grail, Illumina) represents a major application frontier.**
   - *Practical Lesson:* **Capture structural trading volume growth by taking equity stakes in options exchanges while targeting long-horizon investments in life-science AI tools.**

TRANSCRIPT

02:01:58:16 - 02:02:15:22
Michael Cramer. How are you, my friend? I'm good. How are you? It's good to see you. This is not an episode of Kramer from the car. As we've done in the past. You're actually at home. Although you're skybox from somewhere high above Manhattan. It looks like I'm in my. I'm in my working office where I come. There you go, very far away from everyone.

02:02:15:24 - 02:02:32:04
So, Michael, you and I talk all the time. We were most recently in a fantastic space this past weekend. So we've got 20 minutes is a lot to talk about. You've always got a lot to talk about. So let's start off with the usual opening. The question I ask, which is what's top of mind for you? Like what's capture your attention?

02:02:32:04 - 02:02:47:16
You know, any given point in time, it shifts. It could be oil prices. It could be rates. It could be dollar, it could be by trade. So I'm not going to ask you what you think of the market. I'm asking you what are you focusing on on right now. And then that'll lead into of course. How do we help the folks with a couple of ideas.

02:02:47:16 - 02:03:08:21

So Michael, the floor is yours. How about it? So I think there's a couple of things that we really could talk about. And I don't think it's about the market is sort of in a weird place when you think about the stock market. I don't really think it's any more about being bullish and bearish. The index, I think, is about being bullish, embarrassed, the sectors within the index and how it may result in the index trading.

02:03:08:23 - 02:03:28:11
And so like I've been really obviously focused on the bubble or bubble like activity that we've been seeing in semis. And semis have obviously become more and more concentrated within the index. Right. So there is risk in the index is going lower. Right. Mike. Linear for one second. I am aware that we're having some technical issues with the with the frames.

02:03:28:11 - 02:03:50:04
And Jared, my producer, trying to help this. So for all you folks that think that we're we are aware of this problem. By the way, Jared, I noticed now that it's not just Michael. Same thing for me. So, all right. Go ahead Michael. Go ahead. Okay. So I think that's a real big risk here is that everyone thinks like, oh, because the market is good, everything is good, right?

02:03:50:04 - 02:04:06:22
Or the index is at near highs. So everything is good underneath. And obviously, you know, I mean I know it hasn't been a great first half of the year for me personally because I'm not invested in the semiconductor names. Right. And I've been kind of left out of that because I try to invest in other thematic ideas.

02:04:06:24 - 02:04:27:02
So I think there's that going on right now. And I also think that you have interest rates really starting to really catch my attention. The Japanese yen is catching my attention. And what they're going to do over there, the Korean one has been catching my attention because of how tied it is to the I trade. And so the South Korean markets have been really kind of paying.

02:04:27:02 - 02:04:43:19
I've been paying attention to those two. And I could show you a couple charts that kind of go through. You know why I'm thinking that rates right now could actually break out. And, these you have. Yeah. Michael, show us the charts because I, you and I, we we we sing from the same prayer book on this one.

02:04:43:19 - 02:05:03:12
You and I have been on the same page with respect to rates. I think you're going to find recent rates are going significantly higher. They pull up TLT chart over you got here. So actually, I'm writing something right now. And this is this is the term premium. And this is one of George's favorite, indicators.

02:05:03:14 - 02:05:22:02
And I think this is this is a ten year term premium. I know you love talking term premium, so. Oh, yeah. I just want to point out that term premiums are are very low still right now. So there's like

room for the rates to rise. Just from a standpoint of market investors just demanding more yield in the future.

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And I think that's important to understand. Now rates can go up not just based off of like fundamentals, but rates can go off because of supply and demand and what people are willing to pay for. Right. So I think that's a big factor in a lot of this. But specifically when you look at the 30 year yield, it really kind of catches my attention at this point because it's kind of at a spot where it feels like something big is going to happen.

02:05:46:15 - 02:06:08:02
And, again, it depends on how you want to do this for clarity and how you want to think about this from a, a standpoint of conservatism. But, I mean, if if this is part of a larger what I call ascending triangle pattern that you could actually like, Mike, I can interrupt you as I usually do. Can you please take this, this chart back even further because that gives better perspective.

02:06:08:02 - 02:06:34:04
Okay. Yeah, that's much better. I could go go ahead, go ahead. So anyway, depending on how you want to draw this pattern out, right? I mean, if this is truly a real, ascending triangle pattern that's been forming over the last couple of years in the, 30 year Treasury rate, then, I mean, I could easily make a case that the 30 year Treasury is going to 6%, over a period of time.

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How long that's going to take? It's hard to say, but this is what this kind of looks like. It's been building to me. And I think what's also lost in a lot of this, too, is that you're not just seeing rates in the US going up. They're going up all over the world. This is a British 30 year, this is, a French 30 year, the my favorite one now is the Korean 30 year.

02:06:57:18 - 02:07:25:07
They're all just basically going, you know, through the roof, and they're going up. You can see the Korean 30 year and gold has gone from 250 in Oct 275 in October to 463 today. So you're seeing this all over the world. So this just is going to add pressure globally to rates going higher. And of course we know we have the yen which has been also moving up quite quite a lot as well.

02:07:25:09 - 02:07:42:16
Which is something else, you know, again, adding pressures, you know, all these rates are sort of converging and they're all converging and moving higher at the same time. And so I, I find it hard to imagine we live in a world where rates go up all over the place, but yet US rates are the one lone exemption.

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And so again, I think rates going up right now, are going to really be, something that's going to be important going forward. Typically, I was always told when I was younger that as rates went up and as real rates rose, typically, you know, you're fighting for competition at some point that has a negative impact on stock prices.

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And generally speaking, I would have thought that would have happened already. But obviously it's been sort of, pushed off because of things like Nvidia and the AI trade, which has really been kind of overriding things, I think, for some time. So there's interest rates going higher. Obviously risks that the fed is going to raise rates also is certainly another perspective.

02:08:26:15 - 02:08:45:15
Two year rate. I think is probably heading back towards this 5% region just based off of again, some technical charts. You can see it looks like, you know, there's this a giant I already have it in their descending triangle type of for falling wedge pattern that's formed, which would also be sort of, mean that rates would go higher.

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So obviously people don't always make the connection. So I'll make it for you here. It's probably not good for things like the TLT. You can see on the TLT on a daily chart I have in here what looks like a descending triangle pattern, which is exactly the opposite. What you would see in a, in, let's say, the 30 year, and then, of course, if real yields are going up as well, probably not going to be good for ETFs like the tip.

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I think it's also important not to lose sight that bond market volatility is extremely depressed right now. We think stock market volatility is low. But the VIX TLT which is a really easy way to monitor bond market volatility, especially at the longer end of the curve. And trades almost right along with the move index which everyone kind of quotes and watches is really a good way intraday to keep an eye on it.

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And typically when we start to see if we start seeing bond market volatility go up, that's a negative for risk assets in general. And so again with with bond market volatility really low, if we do get a sudden spike in rates bond market volatility going up could really be what sort of unsettles things and makes things move a little bit more risk off.

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Because when you look at at the end of the day, bond market volatility in the VIX basically go hand in hand. So you're not going to see bond market volatility go up and stock market volatility not go up. It's very unlikely in my view. I think there's something going on obviously with Japan. This is to me a major risk only because we don't know what Japan is going to do in terms of, you know, the Japanese yen breaking out to a new a new high here.

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One 6311 is an interesting chart I have. If I can find it. That kind of shows you the Japanese yen from a historical perspective. And we're kind of at places now where we haven't been since, call it 1986. When back when George was probably trading Japan to Fidelity. And, what I when I'm kind of, you know, loosely interpreting as a, as a, inverse, head and shoulders pattern, which again, looking at this chart, it's kind of like the Zen go back to 200, certainly a possibility, I guess.

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I know they're talking about trying to maybe bring, pension investing, you know, have it more heavily invested again in their own country, and maybe trying to repatriate some of that. But again, this is sort of what I think is, a major risk here because you're also seeing, obviously translate not just into, you know, the yen, you're seeing this in the dollar index.

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The dollar index. Sorry. Has what looks like again, sort of a giant, A giant, you know, bull flag forming right now. And you see that inversely in the euro, and you see that, you know, inversely in, you see that also in the pound and, you know, you've seen the Canadian dollar weakening again versus the US dollar as well.

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And so generally, if we kind of take that one step further, I'm not bullish on gold. I'm probably one of the few people that aren't only because rising really yields stronger dollar. Higher rates should really be a negative for it. I'm not going to get into the whole the basement argument and all that other stuff, because I think that's kind of silly.

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But generally speaking, I think it could be sort of longer term, a more bearish, situation for them. Again, doesn't mean they can't bounce in the interim. Gold is kind of at an important spot right now where it could rally back to 4400. I can't I can't deny that. It certainly broke a downtrend, but it doesn't mean that the longer term risks are, been avoided.

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And again, like talking about generally, you know, what this probably means for stocks, I it's hard to say because the market has become so, dispersed. And when I say that there's actually an index you can use to track dispersion, which is basically means that stocks aren't, you know, trading like one another, they're all trading, you know, very, and, you know, sort of differently to one, they're not correlated.

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Right. So there's an index that also measures correlations and three month implied correlations. Basically implied volatility on the index versus implied volatility as single stocks. Is at the lowest level, it's ever been in. Michael, stop. Take a break. I ask you a question. What? So like you're good with the Greeks and all this stuff, and there's also this daily macro yet to talk.

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Right. Let's talk about implied versus realized volatility in this and that and correlation. And I kind of sit there and my eyeballs kind of roll around my head. And it's great when you read the Goldman Sachs daily derivative thing. But when they talk about breathlessly on CNBC but like, what am I supposed to do with this? So like I get them correlations low like, you know, can only go one way or go up, but correlation can stay low for quite a while.

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So it's so in terms of like, hey, you said, look, you're a smart guy. It's even more impressive when you talk about stuff. Nobody has no clue what you're talking about. Well, look, I mean, I think it does actually matter, but this is like, what's the importance of all this? I'm joking. What's the importance of this low implied correlation.

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And this volatility thing speaks to results. So the way I think about it is it's it's telling me how stretched the rubber band is. If we break this down into like simple English. Right. The rubber band right now is extremely stretched, meaning that it's not going to take a lot at this point to really upset the apple cart.

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And my guess is right, because there's a bit of a seasonal pattern to some of this stuff, is that once we get through earnings season, we may start seeing some of the market begin to unwind. Because again, like typically you see that things like dispersion go up into earnings because you see implied volatility go up. People don't know what the results are going to be.

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So they become more cautious. They take put hedges in place. And essentially what this is telling me is that market is very concentrated right now to the AI semiconductor trade. And obviously everyone knows that. But what it's also telling us in a way, is that there's not much further it can really stretch without something kind of going into an area where we've never been before, which I again, I see anything can happen.

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But what it's telling me is that it's time to be really careful and what happens when, you know, correlations get too low, they mean revert or they revert to the mean. Another term that George loves, right. Mean reversion. And that means that everything snaps back. Right. So things that weren't performing well, maybe because there was a trade on like, you know, short, you know, go long semi short semiconductors, short software because, you know, AI is going to dislodge every single, every single software company that ever existed.

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So, I mean, you've seen software stocks get killed, you've seen semiconductors rally. I don't think it's by chance that when, you know, software stock, when semiconductors are going up, you're seeing the igby go down, right? I mean, the the spread is the relative next to one another is, you know, off the charts, right? This is I sma divided by igby.

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I mean, this is, you know, again, this is 2002. I'm guessing if I did like maybe the stocks index, we could get further back, but I'm guessing that this is probably about as stretched as you'll get it. I mean, here you can see this was 1999 on the stocks index. But the point being is that it tells me that probably not a good time to be investing in AI because we have, you know, these risks in the market, these macro risks that nobody's paying attention to on the equity side.

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Clearly, otherwise we wouldn't be the stretched, with, rates breaking out, with oil prices going up with inflation risk, with fed rate hike, risk with effects risk, geopolitical risk. And so what I've been doing is I've been kind of sifting through, going into your, your best ideas is trying to find the names that have been really beaten up to add to my portfolio now, because if my bet is right and the trade was, let's say short software, gold long semis, then when that trade on wins, it means that the market could go down.

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But software does better because maybe the software sector which had been shorted is now getting bought back. Right. And so I think that's why you're seeing a little bit of what you're seeing in the market today. It's a reflection of that. So that's how I've been kind of thinking about it and trying to reposition my own portfolio and my own ownerships and we can get into individual stuff if you want to.

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George. Yeah. Okay. That's really helpful. So, concerned about is the, the indices. We don't know. But a lot dispersion going on in the market. So you know, in terms of giving the folks something to actually, take advantage of your view, whether it's a long or short or spread trade or currency trade or bond trade.

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What I do is you like right now, call so I could go through, about three of them, really, kind of all looking at it from a different type of perspective. So, a lot of people have been focused on things like I and I totally agree with them. I use it every day in my life. And so I've tried to apply AI to not what's happening now, but what's going to happen in the future.

02:18:41:24 - 02:19:00:06
Thinking about what sectors could really benefit from AI. I mean, so my, my, my obvious thought has been like, well, what happens? Like if we go to the doctor and instead of, you know, having to get MRIs and biopsies and things of that to find out whether we have some sort of disease or cancer, they could do it through a blood sample.

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Right. And you take a blood sample, sort of like Theranos was before. You know, that whole thing turned out to be a fraud. But be able to but don't. But don't worry the stock you get a recommends data for it. I going to keep oh I mean I'm not I'm not saying look we don't know what anything is right.

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There's no guarantee in this business. But the idea being is are there companies that are at least position that could benefit from AI, maybe being able to go through the, go through the blood work and find things into tech, things that using AI that weren't detectable by humans. And so like I've been looking in AI owned now for a long time.

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Illumina, which has been a really beaten down name for a while. I bought, another company that was spun off from Illumina. One of the reasons why I bought Illumina originally was because I wanted to own Grail, which is a, multi cancer detection task, which basically again takes a sample of your blood and is able to scan to 50 different types of cancers.

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And what most of the data shows is that they're finding cancer instead of waiting and waiting for stage four. In a lot of cases, they're able to detect it in stage three. And some of the data they're trying to find is maybe early a stage 1 or 2, one. And two doesn't seem to be as promising right now, but I guess if I had cancer and I could find out in stage three, I'd rather know earlier than later.

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So I've been kind of looking at things like that. I've also, you know, just recently bought into it and service now for myself in my portfolio. Because again, I'm, I'm making a bet that I use QuickBooks. It's embedded in my life and sort of it's not going to go away from my accounting system. They just raise prices on me.

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I think two times for two different products that I use. So it kind of reminds me that, you know, they have a lot of pricing power here, and they really control the gates in terms of what kind of data comes in and what kind of data goes out. And I know there's a lot of worried about their TurboTax product, but generally speaking, I tend to think that these companies are, you know, again, from a from a fundamental basis, if you were to pull up a chart of them, I think you would see that they're trading at fairly historically low P.

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S historically low price to sales numbers. And when you look at the cash flow numbers and when you look at things like earnings growth, those really continue to hold pretty steadily. And their margins have held pretty steady as well. So to me, if I can buy into it at 2022 price or ServiceNow at a 2022 price, which is basically where they're trading, then it seems like a good opportunity to take a chance.

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Like if you're ever going to take a chance on something like this, this seems to be, to me, not the ideal time. And then finally, today, I actually just bought, the Cboe, that that stock has obviously come down a lot recently because the market's worried about perpetual futures. And so they've been beating up Cboe CME.

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But again I mean look we know option trading is going crazy in this marketplace. And it seems to be growing on a regular basis. So my viewpoint on the Cboe is again beaten up multiples looked really attractive. Chart looks pretty decent at this point. And you know again my my motto is if you can't beat them join them.

02:22:12:15 - 02:22:34:03
So if this market's going to be more and more about options, then I want to own the place where the options trade. Got it. So I gave you five. How was that more than money's worth. It shouldn't have charged $99 for this coverage when I worked it out. If it's $99 for 15 speakers, that's $6.60, so you get five instead of one.

02:22:34:09 - 02:22:53:23
I have to initiate a surcharge of 6000. Okay, I get back some of the money, but within the half a generation is insane. Michael, thank you so much. I mean, you have a Substack, you have your own research product. Tell everyone where they can find you and follow you if they're so inclined. So I have a Substack.

02:22:53:23 - 02:23:15:15
It's called, navigating the Market. I run a free blog on my website. I publish daily for free. It's not going to give you everything, but it it gives you a pretty high level summary of what happened during the day. That's at my capital management.com. I do repurpose it, and it does get sort of shifted around the internet on other various financial media websites.

02:23:15:17 - 02:23:39:06
I'm also obviously a very a big writer on seeking Alpha there. I publish under the name of Capital Management and obviously on social media on X, which is a platform that loves me. My, my handle is Michael Mozzy. Wow. Wow. I don't know, I think I throw a lot at you, and I hope it now is great.

02:23:39:07 - 02:23:56:18
No, it's great. Great. It's great. We're going to have you back again. We'll do some more spaces to do some more podcasts is awesome. It's like the old days, George. And, Yeah, the good old days get the band back together. So anyway. All right. Cool. All right, so this is great, Michael. Thank you so much. I hope you stick around.

02:23:56:20 - 02:24:07:14
Oh, we got this is been an awesome morning. We've got plenty more coming this afternoon. And, follow Michael for more money saving tips. All right. Take care. Be good. Thank you. Bye bye.