"THE BIG INTERVIEW"

An Excerpt from Money Life

The transcript below is an excerpt from the podcast, Money Life with Chuck Jaffe, recorded on June 5, 2025. You can find the full episode **here.** *Tune in at 38:48.*

Andrew "Andy" Wells
SanJac Alpha LP
Chief Investment Officer

Chuck Jaffe

It's time for "The Big Interview" on the June 5th edition of Money Life. Joining me now, Andy Wells, chief Investment Officer at SanJac Alpha. It is a Houston-based investment management firm that focuses on actively managed fixed income ETFs. Really interesting the way that they do it when you talk about their ETFs, SanJac Alpha, low duration **SJLD,** and their core plus bond fund **SJCP.** If you want to learn more about what they do and why they do it and how they use their system to develop their tactical approach, go to SanJac, S-A-N-J-A-C sanjac alpha.com. Andy Wells, welcome back to Money Life.

Andy Wells

So it's great to see you Chuck and great to be back with you today.

Chuck Jaffe

These are really interesting times for anybody who's on the fixed income side of things because people tend to always focus on the stock market and the stock market is giving one message right now and the bond market is giving a very different message. And as I say all the time when those two sides are disagreeing, if I had to bet on the winner, the winner is the bond market, the bond market's the one that tends to be telling the truth. So what is the truth that you are reading about markets now out of the bond market?

Andy Wells

The bond market, as you say, is the ultimate arbiter in the risk in terms of risk of the economy. And I think what the bond market's telling us right now is that inflation is going to be here for quite some time. Interest rates, the 10-year I checked last couple of days, were around four 50 on the 10-year and around 5% on the 30-year. And we see that, we sort of see those as lofty kind of negative for the stock market rates and actually kind of negative for the bond market if you've been holding them a while, but they're actually priced about where they should be because inflation is here and if you take the adjusted rate, which is the real rates that we're seeing right now, it's around 2.5% real rates. So even if inflation is slightly decelerating, as we've seen in some of these reports, although they've been conflicting, I think that the bond market is telling us that inflation is here and we need to get comfortable with these rates because there's really not a good chance, at least for the rest of this year, that we're going to see those rates come down very much.

Chuck Jaffe
I happen to agree with you, I've actually said I don't think we're getting a rate cut this year, but I know I am in the minority and I don't manage money. You do manage money. When you tell people you don't think a rate cut is coming, what is the reaction that you are getting?

Andy Wells
You're absolutely right. Everyone wants a rate cut. The problem is the economy is in disagreement with that group, and tells us as we look at these real indicators. Yesterday we saw the JOLTS Report[1] and everyone was very surprised that the jobs market actually looks kind of healthy. And that's because we had been looking at these PMIs[2] and some of the soft data that had been coming out over the last couple of months and we just were preparing ourselves for a really bad number. And of course we've got the US Nonfarm Payrolls number[3] coming up on Friday and we had ADP[4] today. ADP is kind of a terrible indicator on Nonfarms payroll. It always historically has been. So we really can't go by the fact that the ADP had kind of a good number or at least not as negative as we thought.

And so we see this as soft data said that the economy was kind of showing some cracks and the real data keeps coming in and saying, no, actually economy is doing pretty well and it's operating pretty efficiently at these rates. That's kind of good news in the sense that these rates aren't showing themselves to be extremely restrictive. The stock market is certainly performing well. We had the V-shaped recovery, and so now I think we just kind of need to look at the rest of the year and develop our expectations about what we can expect to get from the markets.

Chuck Jaffe
I'm curious, especially because you look at the technicals and you kind of take a very quantitative approach to all of this, how you see the tariff situation and the possibility of a trade war with China, most specifically with China. In a trade war. The thing that we export more of than anything else in this country is our debt. And so there's a lot of buckshot that can be fired there. So I'm curious, how much are you gearing up for that to become a problem? What do you see happening from the China side of things that we're not talking about much here?

Andy Wells
What we see there is China has been accumulating gold and divesting themselves of treasuries. Now they've been doing that for some time. So this isn't something that's occurred simply because of the trade war. We think that China now views, and by the way, those are kind of the two world reserve holdings that people think about when they say, am I going to hold gold? Am I going to hold treasuries? Usually hold both. And what China has shown us is that they are going to divest of treasuries and buy more gold, and that's what they've been doing. And so that's not really a surprise. What I think you pointed out that's very, very relevant to the conversation is that rates globally, we have kind of this secular setup for an oversupply of treasuries in the market for several reasons.

One, our foreign investors are tending to kind of divest of treasuries at least not buying them as aggressively. You're talking about Japan and the UK and some of the groups in Europe. They're just simply not buying them as aggressively as they were in the past. We have the Fed[5] who's certainly not buying treasuries right now. And finally then you just kind of have the real market to when that's all to rely on and we have to refinance all of this debt, which is what Scott Bessant keeps talking about. We have to get our debt termed out to longer term. We need to get some of these T-bills and stop rolling those over every 90 days and get this refinanced out to 3, 5, 7 years. That's going to mean that we're going to have to put supplies of treasury onto the market that's exacerbated by large fiscal deficits, which again, those types of things can really, really exacerbate an already existing problem. So to take your question and divide it into two parts, we have a secular setup that say that there's going to be more supply of treasuries on the market and probably less buyer means long-term treasures at least appear to be slated to drift up from here.

We don't necessarily think there's going to be any sort of calamity from this because the cure for higher rates is usually higher rates. And at some point they become so attractive that someone says, Hey, I'll buy a 6% treasury because what can I expect right now in some of these other markets? I mean, 6% sounds pretty good. So we don't think that's necessarily the case, but we do believe that that's going to prohibit treasury rates at least five years and out from coming down. Now we see the 2-year and in a little bit differently because that's closer to what the Fed can control. So if the Fed does make a move, they can actually control the 2-years and in a little bit more by doing things like cutting rates or even signaling things like possibly buying bonds in the future, things like that.

And as we pick up those expectations that could pick it up. So what that really means is a giant steepener in the market, which means, and we've already seen some of it term premium is back in vogue, so we have 70 or so basis points[6] of term premium. And then we have this market that shows itself to be 10-years seems to be, and 30-years seems to be showing a weakness. And yet the 2-year and in stays pretty stable. And by the way, that's a pretty good yield you're getting at the two year level, almost 4% to be able to hold something that is not ultimately that risky because again, you're only holding it for two years and by the time you've held it for a little while, it becomes a one year and it becomes a 90 days. So those types of assets we actually like and the long term stuff we're really steering clear of long duration or long dated bonds right now,

Chuck Jaffe
Which seems to be the obvious play. But I'm curious because we had a guest on the show a day ago who was talking about how on the one hand, yes, he'd be avoiding them and on the other hand they are the key indicator he's watching to see if the bond market is telling us the truth. Do you look at it that way too?

Andy Wells
I do. I think that the bond market again, always tells the truth. We can be deceived by lots of momentum plays lots of different markets out there, tell us lots of short-term things. But I think the bond market does tell the truth. And what it's telling us is that we have inflation and we're now in an inflationary environment and everyone kind of including me would love to return to 2019 and say inflation's going to be 2% or below forever and we can exist in that market and all markets get to go up. Bonds are great, stocks are great, everything's great. The problem is we're now in a market that is in a secular inflation looking market. And so when you have that, you typically see stocks and bonds both struggle kind of together when you're in that tough environment. But also you can see some real whippiness in the market, meaning that you can have a secular bear bond market, but then you have a cyclical bull, which means you can have these short-term swings that make yourself kind of feel comfortable that bonds have rallied back 30 basis points was a big move and everyone thinks we're back on the 2019 and in train, but we're not.

We're in a new world and we just need to become more comfortable with these rates. So to your guest's point, if you're comfortable with that longer term bonds, the way to play that is to average in because you average in with constantly higher rates, you're going to do fine because you're constantly keeping yourself invested at lower prices and then when the duration rally does come, you can possibly take profits there. So that would be a way to play that market. That's not necessarily the way we're investing it. We're investing again for the shorter term simply because there's so much yield there. It's kind of crazy not to.

Chuck Jaffe

Let's talk about what you see happening in Washington because you've mentioned what future deficits could mean, but how worried are you? I mean, how much are you looking at this going, Hey, if we add enough there comes a point that I will look at things differently. And by the way, in that question, let's point out that what everybody stopped talking about now after a few brief weeks of talking about it was that last credit downgrade where finally they've all downgraded us. So having lived through that and seeing that that was kind of a nothing burger, when you look now, are you looking at Washington going, guys, do you understand what the impacts are going to be or are you thinking it's Washington, they don't understand anything?

Andy Wells

Well, these rating companies, we took the approach that the Moody's[7] downgrade was not, as you pointed out, it's kind of a non-event because you've already been downgraded by the other two, now you get downgraded by the third one. It kind of loses its effect after the first and second one. And so we weren't really moved by that. However, we were perfectly happy to agree with them that large fiscal deficits are very, very bearish for the economy as a whole, both medium and long term. And what's crazy about this particular look of the economy right now is you have low employment, yet you have these large fiscal deficits and typically those move in the opposite direction.

So, the the divergence occurred a couple of years ago. We started seeing, hey, employment is actually is tightened up and almost full employment, yet we're running these large fiscal deficits. Usually you see the opposite When unemployment's high, you run high fiscal deficits and you try to remedy that. So in this case, we see adding more to the fiscal deficit, and right now you are looking at something in the neighborhood of 7% of GDP[8], that's a big number to have full employment and to also have rates pretty high right now and in an inflationary environment. So I think what the government's going to have to grapple with here, we've all heard Scott Bessent's grand plan, which is we're going to grow our way out of this deficit problem and we're going to continue to run large fiscal deficits. We're going to grow our way out of it.

That's going to be tough because as the fiscal deficits begin to eat away as a percentage of GDP, that tends to be very, very debilitating to GDP growth. Higher rates certainly don't help, but they aren't necessarily a hindrance if real rates are reasonable as they are right now. So we see this as, yeah, it's kind of a dangerous game and I think it's really most dangerous for equities because equities are pricing in expectations. And we look at the Fed fund futures market and it's pricing in two cuts by the end of this year and another couple of cuts next year, I think four by July. So the stock market is pricing that in. So in order to uphold these valuations we currently see today, we need four cuts by next July. That's something that I'm in agreement with you on. I don't think we're going to get them. I think the late cut cycle ended at the end of 2024, and we need to become comfortable that the Fed is going to be hands off from here on out.

And in fact, to throw a real wrench into things, I think the Fed could consider raising rates at some point early next year if we continue to see inflation be this persistent and act as a debilitating element to the baskets of stocks that we're all holding. And that in conjunction with tariffs. Tariffs again, I know the camp and I've heard their argument on why tariffs aren't really inflationary. I've heard the arguments, but I think that Occam's razor here needs to be applied and we need to look at when incoming goods cost more, that they're being imported in these small cap companies that we all buy in the Russell 2000[9], they may build things here, have their operations here, but their raw goods come from overseas. That's a tariff and that's inflation that has to show up in prices. The immediate Truflation[10] numbers are reflecting that prices are going up. They're not actually going down.

Chuck Jaffe

In that answer. You brought up equities, and I may be a little bit remiss as we started this interview, I positioned you guys as fixed income managers and that's where you tilt and you lean, but you look at the entire picture. So I haven't asked for your take on the stock market for the rest of the year at least, and I know you've got one, but let's cut to the chase. Are we going to wind up seeing it hold what we've had as a rebound or does it have room to grow? And if it's growing, where is it growing? Is this more of a couple of stocks at the top or is this something down the pipe a little more of a stock pickers market and not quite so obvious that it's a few things carrying the water.

Andy Wells

The luxury we have is we've been able to see the little mini cycles through the first half of this year. We've seen what happens when you go full boar tariff. We've seen what happens when you take them all off at once. We've seen what happens when you postpone them. So we have some little trial balloons that we've run into the economy to see what would happen under different circumstances. And it's interesting because I think what we should say is it's going to be more of the same and I do think we can hold what we've got in terms of equity gains, albeit very, very slight. I think we could get as much as five, 6% out stock market this year, but it's going to be slow.

The problem is, when I talk to my equity counterparts and they ask ,"when am I going to start making money again?" That translates to when am I going to get 20% out of the market again? And that's gone. I think that's, we really need to come to grips with stock market could be set up for several years of five, six, seven percent gains, which would be perfectly fine in kind of a stagnated market, which we're kind of in right now, but I think everyone's expectations just need to be lowered significantly.

And to divide that up a little bit for you, Chuck, I would say that the Mag Seven[11] doesn't really care about higher rates that much because they've got huge balance sheets, they've got incredible profit margins, they've got lots of cash. They don't need to borrow as heavily as some of these others who survive on borrowing. So I think there's still a good play, a good case to be made that the Mag Seven is going to lead the way and probably outperform equal weight.

The thing I think you would do to conditionalize that is say if we have kind of a complete calming of the markets and everything just sort of calms down and tariffs trade agreements get done and that sort of thing, I think equal weight could outperform. But if we're going to have all this tumultuous behavior, I think the best thing to do is sort of set up your Mag Seven, have some exposure to equal weight, maybe a very small exposure to small caps who are very, very susceptible to rates and inflation and I think you just kind of do it in that order. We do kind of like the Mag Seven, we look at this of course from the stand point as you pointed out of credit analysts. So we are looking at the credit spreads which are now back to normal essentially after all this crazy widening and all that we saw in the first part of the year. So that tells us the stock market's probably okay, we're not going to have a huge correction, but we definitely aren't planning on any sort of large double digit gains this year.

Chuck Jaffe
And domestic versus international international's been leading the way. Does that hold for the rest of the year?

Andy Wells
If you could go back in time to January, we would all say international. Absolutely International has kind of gotten what it's going to get out of this play, I believe because it's now priced in the uncertainty, it's priced in everything, but it's also picked up the short-term gains that a lot of these countries by repositioning have achieved. So we're back to kind of U.S. is still where we would invest. Again, we like the really tight credit spreads that are just indicating to us that there's really no major problem right now in the equities market. It doesn't mean it won't weaken in the future, and we may have a different conversation first part of next year, we think for a remainder of this year, companies are generally pretty healthy. Earnings look okay if not better than expected. And so if that holds up, then U.S. is still an area that could possibly outperform overseas through the end of the year, but we would at least put that a little better than 50/50.

Chuck Jaffe
Andy, I really appreciate the time. Love the fact that we got a ton of stuff covered in this one, but I'm already looking forward to the next conversation as we watch how it plays out. Thanks so much for joining me on MoneyLife.

IMPORTANT INFORMATION

The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company. Please read it carefully before investing. A hard copy of the prospectus can be requested by calling 1-800-617-0004.

Investing involves risk, including possible loss of principal.

[1]**JOLTS Report** (The Job Openings and Labor Turnover Survey) - program of the Bureau of Labor Statistics (BLS) that produces monthly and annual estimates of job openings, hires, and separations for the nation. [2]**PMI** (Private Mortgage Insurance) - insurance policy that protects the lender if a borrower defaults on their mortgage payments. [3]**U.S. Nonfarm Payrolls number** measures the change in the number of people employed during the previous month, excluding the farming industry. [4]**ADP** (Automatic Data Processing) National Employment Report is a monthly report that measures changes in private sector employment in the United States. [5]**TheFed -** The Federal Reserve System is the central bank and monetary authority of the United States. [6]**Basis point -** a common unit of measure for interest rates and other percentages in finance. [7]**Moody's** - American financial services company that provides credit ratings, research, and risk analysis. It is known for its credit ratings, which are used by investors to assess the risk associated with corporate bonds and other debt securities. [8]**GDP** (Gross Domestic Product) - includes consumer spending, government spending, net exports, and total investments. It functions as a comprehensive scorecard of a country's economic health. [9]**Russell 2000 Index** - small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index.[10]**Truflation** - decentralized service that tracks inflation. [11]**Mag Seven -** The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Broadcom, Meta Platforms, Microsoft, and NVIDIA.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Funds may be lower or higher than the performance quoted and can be found **here**. Neither forward earnings nor earnings growth is a measure of a fund's future performance.

ETFs are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a premium or discount to its net asset value, an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact an ETF's ability to sell its shares.

Shares of any ETF are bought and sold at market price (not NAV) and are not individually redeemed from the ETF. Brokerage commissions will reduce returns.

Diversification does not eliminate the risk of experiencing investment loss.

Distributed by Quasar Distributors, LLC.