

“THE BIG INTERVIEW”

An Excerpt from Money Life



The transcript below* is an excerpt from the podcast, Money Life with Chuck Jaffe, recorded on October 22, 2025. You can find the full episode **here**. Tune in at 15:40.

Chuck Jaffe

Welcome to the big interview on the October 22nd edition of Money Life. Returning to the show now, Andy Wells, he's Chief Investment Officer at SanJac Alpha, which is a Houston-based investment management firm. They do actively managed fixed income and they have two ETFs, the SanJac Alpha Low Duration ETF, that's **SJLD**, and then the SanJac Alpha Core Plus Bond ETF, that's **SJCP**. If you want to learn about the firm and its funds, SanJac, S-A-N-J-A-C, sanjacalpha.com. Andy Wells, it's great to have you back on Money Life.

Andy Wells

Great to be here, Chuck, good to see you.



Andrew "Andy" Wells
SanJac Alpha LP
Chief Investment Officer

Chuck Jaffe

You and I have not talked for a little while. Back as we were getting towards the summer, you were suggesting that investors might want to curb their enthusiasm. Well, if they curb their enthusiasm, they've kind of also curbed their returns because this market has managed to defy gravity. How much longer can that happen since you were worried about it before? Are you more worried now that we've stepped closer to the edge of some precipice or has the market proven to you that maybe we don't have to curb too much enthusiasm?

Andrew Wells

Well, I think in terms of a macro backdrop, the equities market is just forging ahead and it does not look like there's any stopping it through the end of the year of having another great year. In addition to that, the bond market's sort of starting to rally as well, so we're starting to get the feeling of that everything rally that does make us a little bit nervous because that liquidity has to come from somewhere. And if it's not coming from rotations, from equities to bonds or bonds to equities or commodities, or we saw gold sell off just a little bit here today, but at the same time we see even those precious metals and alternatives going up. So if everything's going up, can it go up forever? No, it can't, but it can go up for a long time. And so if the analog, and I hear this all the time, if the analog to where we are today, looks something like 1999 with AI substituted for the internet dotcom boom, then we could be in 1997, 1998 when everyone was a little bit nervous that things were frothy and the market was too rich and they would've been wrong for two and a half years and looked a bit silly to their clients.

However, if they waited around until mid 2000, we sort of lost a decade after that. So we kind of have to figure out where we are. We've had two straight 25% up years in the equities market. The S&P 500

Index¹ delivered +26.29% in 2023 and +25.02% in 2024 (market total return, as of 12/31/24). (Source: [Slickcharts; S&P 500 Historical Total Returns](#)) We're headed for another one S&P is up 14% and the NASDAQ² is up in early 20. So here we sit.

Chuck Jaffe

That being the case, it's not so much curb your enthusiasm, but it might be aim to protect your portfolio. And I've heard lot of people say, look, at the very least, rebalance and rebalancing means that they're putting more money into fixed income, et cetera. So let's take a look at the fixed income market. We've seen the start of rate cuts, but we haven't seen a lot of rate action, will we when we get the next rate cuts?

Andrew Wells

Well again, if only we had something to look at to see what would happen if markets are at all time highs, inflation's still persistent, and the Fed³ decides to cut anyway. And then I remember, oh yeah, we do have an example of that in late 2024, last year. So what happened last year of course, is we went into the rate cuts that everyone said we needed and that everyone was in favor of, and all the bond market did on the long end specifically, is sell off. So we had this massive sell-off, which basically is the bond market telling the Fed, you made a policy mistake. Now the question is, are we having another 2024 experience here in late 2025? In September we got the cut and it did sell off initially, but now we've rallied back. So it appears the market was able to digest that first cut just fine, and now we just have to ask ourselves, how many more cuts can the market digest with inflation still persistent and even though we don't have the numbers because we're operating blind here a little bit, we do have Truflation⁴ and some of these other private metrics and they tell us inflation is around 2.85% is what I saw a couple of days ago.

So inflation is there, it's fairly high. It's gravitating up towards 3%. We'll see what the CPI⁵ number is on Friday, but this is the type of environment that once again, we're operating just a little bit in uncharted territory. The Fed is cutting into all time high markets and persistent inflation. Wages are stable and up. Unemployment is very stable where it is today, we need to see exactly how the bond market's going to react. We believe that it will react again by steepening out and we're staying near the front of the curve where there's still yield⁶, but you don't have a lot of duration⁷ risk.

Chuck Jaffe

Will we wind up seeing significant rate changes across the spectrum? I know people expect the fed cuts rates and mortgage rates go down, they're not really tied. It's more about treasury yields, but are we going to see the other impacts that you would expect in the fixed income markets? I mean, will we wind up seeing as we get into a rate cut cycle, the treasury doing what we expect and creating the benefits we want for mortgage borrowers?

Andrew Wells

That is a very, very good question, Chuck, and that's the one that I don't think anyone knows the answer to because the long end of the market, as you stated, is completely disconnected from the Fed. In fact, it can operate in an antithesis to what the Fed is doing. As we saw in late 2024, mortgage rates can go up even as the Fed is cutting, if the market believes that inflation is either being stoked or it is so persistent that buying the long end of the bond market just looks like a terrible idea. So at this point in time, I think we need to really, really watch the two and three year, which is close enough to the Fed to where it does feel the gravitational pull of fed rate cuts, but at the same time, it can still do its own thing as well. And

even last year, the two year sold off pretty remarkably, even as the Fed was cutting a hundred basis points⁸ in late 2024. So again, I would watch the two and three year. That's where we're hanging out because it tends to at least be pulled in by the Fed.

Chuck Jaffe

When you consider these conditions, we're at a spot where everybody's saying, as you did too to some extent, ride while you can ride, make hay while the sun is shining. Is something interesting going to happen when people finally wake up and go, okay, now this problem that I was expecting is actually showing up. Will we see a gush of money into fixed income and will that have some sort of a market impact? Will we wind up seeing a fixed income rebound, crater, whatever as money gushes in whenever this equity rally starts to show signs that the end is really here?

Andrew Wells

Yeah, this is where I would divide the bond market into two sections. You have the credit side of the bond market, which would be much more closely correlated to the stock market and when credit cracks and there's zero cracking in credit right now, the credit is at the tights. I believe we're seeing in terms of investment grade credit⁹, we're seeing the tightest spreads to treasuries since the nineties across the investment grade and all the way through high yield. So we're seeing some extremely high tight spread¹⁰. So that tells you that credit either is one of two things, either is extraordinarily healthy and we should all be buying it or it is very, very rich versus the treasury market, which is again what we often reference as the 'risk-free rate,' meaning short-term Treasury bills used in financial parlance, not that they are entirely without risk. On the other side of the bond market, you have treasuries, which are all rate sensitive 100%.

It's just all about rates. So we see that the credit market still looks so healthy and it's so tied to equities markets that looks to be the better option at this point in time because first of all, you can get a little bit more spread. Secondly, it's just less rate sensitive and rates are the one thing that could just be really, really choppy. It looks like a very, very rough choppy chart. When you look at the MOVE Index¹¹, when you look at the 10 year, you're seeing moves that typically over the last 20 years when we were in a calm rate market, you would see those moves happen over months. Now they happen in days. So the market doesn't like uncertainty. Lenders don't like choppy rate markets because it's very, very difficult to price money. So we're geared more towards credit and the front end of the treasury curve.

The one area we don't like of the total bond market right now is anything longer than about five years. Unless you're buying TIPS¹², at least with TIPS, and we do hold TIPS both of our funds, you're getting compensated for that excess inflation number that's in that, and even though you're carrying some duration, you're offset a little bit, buffered a little bit because we feel like if there's a sell off, it's typically going to be because of inflation. So at least you're compensated for that. But that's the way we're kind of carefully in this market in terms of taking risks around rates and credit. We think credit is definitely the better option right now.

Chuck Jaffe

Given where we're at and given how much it's politicized, I know what the market's expecting, but the market is always expecting cuts because they have hope over reality every single time. Is there a chance that the Fed surprises us here and just says, no, not going to do it?

Andrew Wells

No, I think the Fed's going to cut. This is an area where we have to just ask ourselves what the Fed should do. I have an opinion on that. Then we have to ask ourselves what the Fed will do, and the Fed is definitely going to cut because every metric from the two year treasury kind of has it priced exactly where it should be. If you got a cut this month, everything is kind of priced in. So you would be correct in saying that if there was a surprise no cut, it would be alarming to the market because everything is around pricing in that cut. In fact, they've priced in as we know, around five cuts through 2026. So you have to unwind some of that stuff to back away. So we think the Fed tries to be data-driven as much as they can be, but if they were using data, I believe that if I were there at the Fed right now, I would say to them, this is not a good time to cut because every single metric you use to say where money is fairly priced says that there should be no cut.

Right now there's a Richmond Fed¹³ just released their estimate in terms of where the neutral rate was as it came in at 2.15%. So if you take the real fed funds rate at 2.15% and add a number to that for inflation, you can take your pick two or 3%. If you take the Fed's super optimistic, we're going towards 2% that would have the fed funds rate a little more than 4% where it's right now, if it's 3%, which is what Trufflation tells us closer to that, then we should be closer to 5%. So if you use any of their metrics, pick one of them. You would say that this is not a good time to cut. However, there's one metric that's more powerful than all of those, and that is they're getting massive pressure from everyone including the White House. And this is the cynic in me talking, but it appears that we have a CPI number coming out this Friday. Now why would that be coming out when no other federal numbers are coming out from the BLS¹⁴? Well, the number could be cool. That could be one reason why it would support a rate cut. That may not happen. But if it does happen, then I think rate cuts from here probably through January are generally secured. So you would look at two, maybe three cuts through January.

Chuck Jaffe

So if I put that together, you would not be cutting if you were functioning in a vacuum other than the numbers that you're looking at, you believe that we have to be cutting. Do you wind up in a situation where the cuts are a mistake? Do we wind up getting to a point where we are looking back going, yeah, at some point we regret this policy. Pretty significant.

Andrew Wells

Yeah, I think that's what the bond market is going to decide coming out of this. So the bond market always decides whether or not the Fed makes a policy mistake if rates sort of do what they normally would do. And as you see a parallel shift down in rates, so the Fed cuts 25 basis points, everything else just sort of calmly begins to drift down. That would mean the bond market is endorsing the Fed's decision. If the bond market whipsaws into some sort of a 20-30 point sell off over the next month in the 10 year, that's a point blank message back to everyone that we do not agree that this is the time to be cutting. We think you're stoking inflation, we think the economy is doing quite well and it's growing at potential. So we look at this as something that is not only unnecessary but could be even harmful to the long-term prospects of the economy because persistent inflation is again going to continue to whittle away at the buying power of the Main Street.

Chuck Jaffe

Andy, let's talk a little bit about international. I want your take there because there is a mixed bag of folks. There are some who are saying that what we've seen this year was more currency driven and that's now

kind of over, so the foreign rally is done. There are others who are saying the foreign rally is still coming forward. So for you, I want both your take on international equities, they know you have one, but also international fixed income because that market is also changing.

Andrew Wells

Yeah, the international opportunity, and you said it perfectly, that was about six, nine-months ago. There was a mismatch between the dollar weakening dramatically bottoming out around June in terms of where the dollar was matched off against the other currencies, and now it's been slowly strengthening back and we think that strengthening is going to continue. It's chopping upwards, although it's still not showing real strength, but it's showing that it bottomed out in June. So as that dollar begins to strengthen, we still are going to be biased towards domestic bonds, domestic equities from here. But again, there was an incredible opportunity starting about a year ago and going through really about June-July of this year that you picked up a huge outperformance over the US bond market and the US stock market, and we just think that's passed now. So we look at it now as the opportunity really is domestic because we think people are going to be probably moving back into dollar denominated assets more and more from here. And we think anything the Fed does to support that, whether they even look at something like a not quantitative easing market stabilization purchases or something, which we think probably is something that's in the cards for the next year or so, especially if the bond market continues to sell off. Also, the value in our bonds are reasonably good right now. If you cross it with cross currency basis hedging and things like that, I think it's a pretty good opportunity. It's beginning to look better and better from here. So that's where we're certainly biased that way.

Chuck Jaffe

I know that you are starting to look and do forecast for the year ahead. You talked about how we are stacking good years on top of each other, how there is a worry, but if you had to put your first look out into 2026, are you thinking that we can make it through the year and have a fourth good year in a row?

Andrew Wells

Well, that's a great question. I had the pleasure of going through and reading every single major brokerage estimate for where equities could be in 2026, and I'll just take Vanguard for instance. I really like their analysts there in terms of how they price everything out and they see the equities market being pretty challenged this year, definitely in single digits, possibly still in a gain, but pulling back just dramatically from what we're seeing from all of this momentum and trend following trading going on. Problem with all of that is that's what was said in late 2024 as well. So can we take a crowdsource all of these things together to say that equities are probably going to have a five or 6% year next year? We can say that and crowdsource that answer, but I think that we kind of saw the same thing last year.

I said the same thing last year that I think we have to give back some of these extraordinary returns over the last two or three years, and I still feel that way. The markets just keep going higher and they just can't go higher forever. You can go all time highs for a long, long time and you can bankrupt the shorts, but you can't go up forever. So at some point that market's going to give back some of this extraordinary gain that we've priced into things like AI, we've pulled forward 20 years of sales and 10 years of earnings and things like that.

Chuck Jaffe

Andy, the one other thing that can't go on forever is our chats here on Money Life. We've come to the end of our time, but thanks so much for joining me. We'll do this again down the line as we see how it all plays out.

Andrew Wells

Sounds great. Great to see you, Chuck. Thank you.

Chuck Jaffe

That's Andy Wells, the Chief Investment Officer at SanJac Alpha, sanjacalpha.com. Again, there are two fixed income ETFs, the SanJac Alpha Low Duration ETF and the SanJac Alpha Core Plus Bond ETF, sanjacalpha.com.

IMPORTANT INFORMATION

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Investing involves risk, including possible loss of principal.

¹**S&P 500** - a stock market index weighted by market capitalization that is made up of 500 of the largest public companies in the United States. ²**Nasdaq Composite** - market weighted index of stocks currently listed on Nasdaq. ³**The Fed** - The Federal Reserve System is the central bank and monetary authority of the United States. ⁴**Truflation** - decentralized service that tracks inflation. ⁵**Consumer Price Index (CPI)** - presents the percentage change in prices that consumers pay for goods and services. ⁶**Yield** - annual rate of return on an investment, expressed as a percentage and calculated by dividing the income an investment generates by its current market price. ⁷**Duration** - reflects how much a bond's value is expected to move when interest rates rise or fall. ⁸**Basis point** - a common unit of measure for interest rates and other percentages in finance. ⁹**Investment grade credit/Credit Ratings** - assessment of the ability of a corporation or government to repay the interest due to investors on a loan or other debt instrument; letter grades ranging from AAA at the top to C or D at the bottom. ¹⁰**Spread** - the difference or gap that exists between two prices, rates, or yields. ¹¹**Merrill Lynch Option Volatility Estimate Index (MOVE)** reflects the level of volatility in U.S. Treasury futures. ¹²**Treasury Inflation-Protected Securities (TIPS)** - a type of Treasury bond that is indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money. ¹³**Richmond Fed Index** - a survey-based economic indicator that measures manufacturing activity in the Fifth Federal Reserve District. ¹⁴**Bureau of Labor Statistics (BLS)** - American government agency tasked with collecting and disseminating a range of economic and employment data.

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