

Mike Collins Featured in Phil Blancato's Weekly Market Impact Podcast

00:00-00:09: Hi everybody this is Phil Blancato.

00:09-00:14: I'm CEO and president of Ladenburg Thalmann Asset Management and chief market strategist for Osaic.

00:15-00:18: Welcome to another weekly Market Impact.

00:18-00:20: I'm recording a little early this week.

00:20-00:21: It's Friday, October 24th.

00:21-00:26: Usually you get me on a Monday after a long weekend, but next week I am out of the office.

00:26-00:32: On Monday I'll be out doing some fun stuff with friends and family I didn't want to miss the chance of having on a really special guest.

00:32-00:34: And I'll get to Mike in just a second here.

00:35-00:45: When you think about what's going on out there right now, you know, we've talked a little bit about where the, where the US Economy is and could we get to this sweet spot.

00:45-00:48: And I often call that we're sort of an experiment.

00:48-01:00: On one hand, could lower bank regulations, lower corporate taxes, lower individual taxes, pro-business environment, create a coiled spring in the US Economy and see the US Economy growing quite aggressively.

01:00-01:05: And at the same time, AI and some of our productivity and demographics bring down inflation.

01:05-01:08: So the Fed could in theory cut rates, but yet we're growing.

01:08-01:09: That would be amazing.

01:09-01:10: I don't know if that's going to happen.

01:11-01:12: We got some news on that today.

01:12-01:13: We'll talk about that with Mike in a second.

01:13-01:15: Or is the US Economy not going to do that?

01:15-01:18: We're going to add more to our debt with a dollar weaken further.

01:18-01:21: We'll see some breakage in unemployment.

01:21-01:25: So what you're seeing right now is the market really is optimistic.

01:25-01:27: And a day like today we got some inflation data.

01:27-01:29: I'll wait to talk about that with Mike.

01:29-01:31: But as of right now, we're going to be up on the week.

01:31-01:37: Just this morning we're up almost a percent on the S&P 500 and we're up over a percent on the NASDAQ.

01:37-01:43: Interestingly, you know, as you know, I've been a huge fan of the bond market this year and the bond market continues to cooperate.

01:43-01:48: Even today we're still at roughly 3.9 or 4% on the 10 year US Treasury.

01:49-01:52: But all the other bonds below that are actually down in yield on the day.

01:52-01:54: So we call that a bull steepener.

01:54-01:59: So the short, short maturity bonds are going down in yield means their prices go higher.

01:59-02:01: Longer maturity bonds are basically not moving.

02:01-02:04: That just says that there's strength in the US Economy generally.

02:04-02:06: Can't wait to see what Mike thinks about that.

02:06-02:10: But my point is we have a really good, interesting market right now.

02:10-02:12: We got through September without any big issues.

02:13-02:18: The last week of October is the worst week of the month on average, going back 100 years.

02:18-02:21: So let's, so let's just see what next week brings.

02:21-02:23: But so far, so good for me.

02:23-02:27: On a personal note, I had a chance to come down to Marco Island, Florida.

02:27-02:28: I have only been here once before.

02:29-02:30: It's a beautiful place.

02:30-02:36: I really don't know much about it except that it's calm oceans, beautiful blue water, white sand.

02:36-02:37: This is a new one for me.

02:37-02:41: I'm actually sitting here looking out at the beach right now, now that we have a business event down here.

02:41-02:42: So I got to come down here and see it.

02:43-02:44: Really beautiful spot.

02:44-02:47: I really enjoy being, being down here.

02:47-02:53: This week the Georgia Bulldogs are off, so no Bulldog updates, but you know, Penn State's off, so nope.

02:53-02:55: So football's quiet this weekend.

02:55-02:58: I'm hoping somebody can finally beat Alabama and Ohio State, but you know, they're not.

02:58-03:01: Ohio State's off as well, so no good football news.

03:01-03:02: World Series starts soon.

03:02-03:07: You know me, I, I am, I'm a Yankee fan, but I'm impressed with the Dodgers.

03:07-03:08: That team is ridiculous.

03:08-03:09: Ohtani is.

03:09-03:13: I think we're watching somebody who could will go down in history.

03:13-03:18: So maybe during this World Series I'm not going to watch every game, but I think it's something fun to keep a close eye on.

03:18-03:27: And the other fun, personal thing going on is, you know, we're in that period of time when we begin to have this sort of euphoria around the holiday season.

03:27-03:30: Whether it's, I argue, Halloween is the coolest holiday of the year.

03:30-03:31: Coming up on that.

03:31-03:34: And then more importantly, all the fun things we do.

03:34-03:37: So in New Jersey, you know, the leaves are coming down right now.

03:37-03:39: We've got this autumnal feeling.

03:39-03:41: There's a Christmas in the air, in the morning.

03:41-03:42: It is that.

03:42-03:44: It's a, it's a really fun time of the year.

03:45-03:47: You're leaving the wonderful summer behind.

03:47-03:53: The Halloween decorations, the Thanksgiving decorations, you know, for me, my poor garden's coming to an end.

03:53-03:55: Although I did get another basket of peppers this weekend.

03:55-03:56: Very large basket of peppers.

03:56-03:58: If you want some peppers, stop by my house.

03:58-03:59: I got all you need.

03:59-04:13: But it is, it's, it's, it's a fun time of year because the Rockefeller Christmas tree will be up in three weeks, which is mind boggling that, that it's coming up already starting to put it up, I should say.

04:13-04:15: New York is loaded with people.

04:15-04:18: You know, I'm in New York City on a regular basis and it's Just a.

04:18-04:21: It's a time of year where this euphoria builds into the holiday season.

04:22-04:23: For some folks, it stresses them out.

04:24-04:25: For some, not so much.

04:25-04:26: Just one economic point.

04:26-04:31: We're seeing temporary jobs increase going into the fall season, which is a great sign.

04:31-04:33: That means the unemployment market is still healthy.

04:33-04:38: Sorry to tie it all back, but my point is enjoy this, this couple of weeks here before it's super cold.

04:38-04:39: The euphoria builds.

04:39-04:41: Halloween being the coolest holiday.

04:41-04:42: I hope you do something fun.

04:42-04:43: And for me, I'm going to go out and do it.

04:43-04:46: We have an annual tradition of going out to South Dakota with some friends.

04:46-04:52: It's an event I used to do with my father, so going out with a couple of buddies to keep this annual tradition alive.

04:52-04:52: So I'm super excited.

04:52-04:54: It's why you won't hear from me Monday.

04:54-04:57: Today, I'm very excited to bring on a special guest, Mike Collins.

04:58-05:01: Mike's a senior executive portfolio advisor for PGIM.

05:02-05:03: PGIM Prudential obviously.

05:03-05:05: I might talk a little bit about Prudential.

05:05-05:09: Fun prudential story I'm 35 years in this industry.

05:09-05:14: I'll start my 36 years in January of 2026, so almost done with 35.

05:15-05:17: I started my career with Prudential Securities.

05:17-05:20: Now it doesn't exist anymore because it was sold many years ago.

05:20-05:23: And I left to join Ladenburg/Osaic.

05:23-05:26: But I always have a special place in my heart at PGIM.

05:26-05:28: I have friends that still work there to this day.

05:28-05:33: So it's kind of fun to have my sort of original firm on with us today.

05:33-05:35: So, Mike, welcome to the call, buddy.

05:35-05:36: Thank you, Phil.

05:36-05:38: I'm thrilled to join you today.

05:38-05:39: Exciting stuff.

05:39-05:40: Mike's a Jersey guy.

05:40-05:41: Forget all this work stuff.

05:41-05:43: Tell me about your Jersey experience.

05:43-05:44: And now you live in Florida, you build.

05:44-05:47: I understand why it's crowded, it's crazy, and it's expensive.

05:47-05:49: But, you know, it sounds like you know Jersey pretty well.

05:50-05:50: Yes.

05:50-05:58: I was, was born and raised in a little town called Verona, New Jersey, which is actually just a few miles from my office in Newark, New Jersey.

05:58-06:01: So I've been with Prudential, or PGIM.

06:01-06:01: Right.

06:01-06:07: PGIM is the global asset management arm of Prudential, one of the biggest asset managers in the world, actually.

06:07-06:09: And I, I'm in their fixed income department.

06:09-06:11: So I'm a. I'm a bond guy.

06:11-06:14: But I've been with Pru, Phil, for 40 years.

06:15-06:15: Right.

06:15-06:24: Actually started out many years ago in their computer department as a programmer, believe it or not, designing trading systems for the bond Traders.

06:24-06:26: And I said, wow, I want to do what they're doing.

06:26-06:28: They're having a lot more fun than I'm doing.

06:29-06:32: They're making more money than I am and, and I think I'm as smart as all of them.

06:32-06:40: So I, I switched gears and, and switched careers and became a, a real bond guru over the last 30 years or so.

06:41-06:42: That's a great story.

06:42-06:42: I love it.

06:42-06:43: Verona is a great town by the way.

06:43-06:45: They had an awesome park and a great bakery shop.

06:45-06:48: The Del Piero I think it is all but great.

06:48-06:49: Great little town, Verona.

06:49-06:50: The Verona Inn by the way.

06:50-06:51: Great, great restaurant.

06:51-06:52: Oh yeah.

06:52-06:57: My father tells a story that he, he's been thrown out of the Verona in back when, when he was a kid growing up in Verona.

06:57-07:01: So we have a, a lot of, a lot of Collins' in Verona and a lot of, a lot of roots.

07:01-07:02: Some, some big families.

07:03-07:03: Yeah.

07:04-07:05: Mike has a sense.

07:05-07:07: For those of you listening in Jersey's a weird place.

07:07-07:09: We have 560 little towns.

07:09-07:09: Now.

07:09-07:15: We're an expensive place to live because they all have their own police, fire and water, which is what makes it so damn expensive.

07:15-07:17: But all these little towns have so much heart and soul.

07:17-07:19: Verona's definitely one of them.

07:19-07:21: That's a cool place to have grown up, buddy.

07:21-07:25: Mike, you know, just kind of fun to jump off here.

07:25-07:29: PGIM is a global asset manager and why we're excited to have you on today.

07:29-07:29: You said it.

07:29-07:30: One of the biggest in the world.

07:30-07:32: Maybe a little bit more about the firm.

07:32-07:38: By the way, did you ever meet Danny Picarillo or Scott Polak, two buddies of mine, One of you across Danny's in tech, so maybe you met him along the way.

07:38-07:41: Do very, very good friends of mine, but of course.

07:41-07:44: Tell me a little bit about PGIM and what you all do.

07:44-07:45: Yeah, so.

07:45-07:48: So PGIM, like I said, it's the asset management arm of Prudential.

07:48-07:49: It's one of the biggest in the world.

07:49-07:54: We have a giant, you know, equity division called Jennison Associates in New York City.

07:54-07:58: You know, they're kind of world class, famous for their global growth equities.

07:58-08:01: We have one of the biggest real estate managers in the world.

08:01-08:09: I actually believe the Catholic Church and the US government are the only entities in the world that own more real estate than Prudential does.

08:09-08:10: Right.

08:10-08:12: So we are a giant player in real estate.

08:12-08:25: We're one of the biggest players in the private debt markets, believe it or not, which is a really hot topic now and seems like everybody and their brother are trying to get into the private debt markets, but we've been involved in that market for 100 years.

08:25-08:32: In fact, I just got off a call with our private debt team going over some of the deals they're looking at and there's a lot of euphoria.

08:32-08:34: You use that word, euphoria.

08:34-08:36: A lot of euphoria in the private debt markets.

08:36-08:42: And it's something we're really skeptical about and we're very carefully analyzing all these deals.

08:42-08:47: But I'm in the old-fashioned public fixed income group within PGIM.

08:47-08:51: We manage close to a trillion dollars just in publicly traded bonds.

08:51-08:58: So think of government bonds, corporate bonds, high-yield bonds, municipal bonds, mortgage bonds—you name it.

08:58-09:00: We manage a lot of money in bonds.

09:00-09:10: I mean, our clients are the biggest sovereign wealth funds, insurance companies, pension plans, governments, corporations in the world.

09:10-09:15: And we also manage these giant mutual funds which you and your clients would probably know us for.

09:15-09:21: Like the PGIM Total Return Bond Fund, for example, is over 50 billion in assets.

09:21-09:23: It's one of the largest bond funds in the world.

09:24-09:29: And I've been involved in that bond fund managing it or co-managing it for almost three decades.

09:29-09:36: So, very proud of the tremendous track record we've had in strategies like that and often Bond Manager of the Year.

09:36-09:38: So give the firm a lot of credit.

09:38-09:41: It's nice to see that my original starting place is crushing it.

09:41-09:43: That's why we're excited to have you on today, Mike.

09:43-09:44: So let's jump in.

09:45-09:47: Obviously, you heard my opening comments.

09:47-09:49: You know, I think we're one of two ways the US economy goes.

09:49-09:57: Does it rip higher because of some of the changes being made based on taxes and economics and regulation, or does it go the opposite direction?

09:58-09:00: Excuse me.

10:00-10:01: And can we get into this sort of sweet spot?

10:01-10:07: Well, today we got inflation data. I'd love your thoughts on the latest round of inflation and what you think it might mean for the equity, the bond market, and the US economy.

10:07-10:18: Yeah, I mean, just specifically on the inflation point, Phil, before we get into kind of the macroeconomic outlook, you know, which is really interesting, I love the way you framed it because it's right along the lines of what we're thinking.

10:18-10:21: But the inflation data today actually came in more benign.

10:21-10:26: Remember, this is data we were supposed to get a few weeks ago, but all those furloughed government workers couldn't put the numbers together.

10:27-10:32: So they rehired people or sent them back to the office to cobble together these numbers.

10:32-10:41: Because the Federal Reserve, the FOMC, you know, Jerome Powell is the Chair, meets next week and the assumption is they're going to cut rates, but they need data, right?

10:41-10:46: They're always talking about being data-dependent, and without data, they're kind of flying blind.

10:46-10:56: So, the government workers came back in and put together an inflation number, and it was actually lower than expected, meaning prices are not rising as fast as everybody was worried about.

10:56-11:08: And what that means is the tariffs that everybody was terrified were going to cause this big spike in inflation have not generally been passed through to consumers that successfully.

11:08-11:12: Meaning these companies are eating it, the importers are eating it, the exporters are eating it.

11:12-11:14: It is not getting passed on to consumers.

11:14-11:17: And the real reason is consumers are out of bullets, right?

11:17-11:35: I mean, they just went through this huge inflation spike a few years ago following COVID, and they're just—they can't afford between the rents and the insurance and health insurance and car insurance and auto prices, you know, and mortgage costs and student loans and food prices—they're out of bullets.

11:36-11:39: So, companies have really had a lot of difficulty passing those through.

11:39-11:41: So we got a weaker-than-expected inflation number.

11:41-11:44: And generally, what that means is it's good for the economy.

11:44-11:47: It means the Fed will cut rates next week, right?

11:47-11:57: So they will take the funds rate from just over 4% to just under 4% next week right before Halloween, and then they'll probably cut again when they meet in December.

11:58-12:04: So I think you're going to end the year with a federal funds rate, you know, kind of around three and a half to three and three-quarters.

12:04-12:06: So, you know, quite a bit lower.

12:06-12:08: Remember, it peaked at almost five and a half.

12:08-12:15: So they will have, you know, orchestrated a bunch of rate cuts from the peak just a, you know, year and a half or so ago.

12:15-12:16: So, so that's good.

12:16-12:19: Now, on your macro question, it's really fascinating, right?

12:19-12:23: And I have no idea whether the economy is going to go up or go down next year.

12:23-12:28: I mean, it's, you know, forecasting economic activity feels one of the, you know, most difficult things to do.

12:28-12:30: In fact, economists are generally terrible at it.

12:30-12:33: And the federal government is generally terrible at it.

12:33-12:44: We're really bad as kind of a species, I guess, or an industry at forecasting recessions especially—they happen, and they happen all the time, and they always surprise us.

12:44-12:51: But when you look back, you know, you say, you know what, there were enough warning signs that maybe I should have been a little more attuned to that downside risk.

12:51-13:01: So the way we're looking at the US economy and generally global economy right now is that we look at these scenarios just like you said, and we're calling your, your kind of, you know, base case, the muddle through.

13:01-13:03: Meaning, you know, and that's what we're in now, right?

13:03-13:05: Growth is like between 1 and 2%.

13:05-13:09: Like real GDP growth is between 1 and 2% right now.

13:09-13:12: And it feels like we're going to kind of be stuck in that range.

13:12-13:16: Inflation is, you know, between two and three, maybe at the higher end of that range.

13:16-13:18: And it, we're stuck in that range.

13:18-13:21: And that's a world where the Fed can cut rates a few times.

13:21-13:24: It's a world where the economy doesn't fall off a cliff.

13:24-13:26: It's a world where companies still make money.

13:26-13:31: It's probably good for assets like stocks and bonds and even real estate.

13:31-13:36: So that kind of, I don't know if I'd call it a soft landing, but it's kind of a slower, moderate growth world.

13:36-13:39: And that's actually a good one for financial assets.

13:39-13:42: It's good for, you know, your clients and my clients.

13:42-13:46: But these tail risks, the ones that you laid out, are what we worry about, right?

13:46-13:48: And the downside tail risk is always...

13:49-13:52: What they call the left tail is what everybody worries about.

13:52-13:53: That's the recession risk.

13:53-14:03: So if you think about that muddle through, we put like a 50% probability on that, and then we put a 30% probability on something worse than that.

14:04-14:10: Okay, maybe inflation does spike, and the Fed can't cut rates, and then you ultimately go into recession.

14:10-14:14: Or maybe growth just continues to slow, and consumers stop spending.

14:15-14:27: And, you know, this AI thing is maybe a little bit overdone, and maybe some of that capital investment comes down, and maybe the stock market takes, you know, goes down, and all that wealth effect that we've benefited from weakens.

14:27-14:29: And maybe the job market just keeps weakening.

14:29-14:29: Right.

14:29-14:31: And it is kind of weak.

14:31-14:40: I mean, there are some positive indicators that you mentioned, like temporary employment, but generally labor, you know, force supply is down, and demand for labor is down.

14:40-14:42: Companies are not hiring new people.

14:42-14:45: In fact, they're starting to lay people off really for the first time.

14:45-14:50: So I'm more—I'm always worried about that downside risk because that's when people start losing their jobs.

14:50-14:54: And in fact, in the last couple weeks, I've had some good friends and a family member lose their jobs.

14:54-14:58: And these are kind of good white-collar jobs that are being laid off.

14:58-14:58: Right.

14:58-15:00: So it's starting to get close to home.

15:01-15:04: So it is happening, right, and that's something to be cautious about.

15:05-15:18: But there is this upside tail risk, right, that you mentioned, and we're putting like a 20% probability that, heck, maybe the Fed cuts and they cut too much, and it inflates this bubble even more, and the stock market just keeps going.

15:18-15:22: I mean, it seems like it's going up, you know, half a percent or 1% on a lot of

days.

15:22-15:26: Like you mentioned, we're at all-time highs today on the stock market.

15:26-15:34: And obviously, the valuations in some of these high-tech, you know, AI-oriented companies are really getting very full.

15:34-15:35: Right.

15:35-15:36: Or even overvalued.

15:36-15:38: So, so, you know, heck, maybe inflation picks up.

15:38-15:48: Maybe, you know, the stock market keeps going up, and maybe companies keep, you know, doing aggressive financing and transactions, and that's kind of that upside risk.

15:48-15:52: It feels good for a really short time before it all comes crumbling down.

15:52-15:52: Right.

15:52-15:57: So those—either of those tails are actually not great for financial assets.

15:57-15:58: Right.

15:58-16:01: One is just things get bad, and the other one is things get too good, and then they blow up.

16:01-16:02: Right.

16:02-16:09: So, so it's really that sweet spot, like we're trying to thread the needle and find that middle ground, as you said, that kind of 50% probability.

16:09-16:10: And that's where we are right now.

16:10-16:14: And, you know, maybe that problem—maybe that 50% is too low of a probability.

16:14-16:14: Right.

16:14-16:19: Maybe it's actually the state of affairs for the next couple of years, and we should all hope that.

16:19-16:19: Right.

16:19-16:21: And I think that would be a really, really good outcome.

16:22-16:22: Yeah, for sure.

16:23-16:34: So much of what you said is a lot of what we talk about on the podcast, and today's inflation data, while 3% is a bit lower than expected, is still 3% when the Fed wants it at 2.

16:34-16:35: So not quite there yet.

16:35-16:40: You're right that the labor market hanging in there—not a lot of layoffs yet, but starting to see some cracks.

16:40-16:51: So all these things have us a bit concerned, yet the market's at all-time highs, which is why we talk a lot about if inflation does come down to Fed cuts, isn't the bond market a really great place to be?

16:51-17:00: Because you might, assuming we don't get a runaway, you know, a real spike

in inflation, you might get prices and bonds going higher as interest rates go lower.

17:00-17:02: What are your thoughts on the bond market right here?

17:02-17:05: And, you know, remember, we got punished in 2022.

17:05-17:10: We haven't made a lot of money in '23 and '24. This year we're up about 8%, depending on what you own.

17:10-17:13: But, you know, are bonds in vogue again, in your opinion?

17:14-17:15: Yes, I mean, we...

17:15-17:23: So my—the presentation I kind of drag around with me when I speak at conferences, et cetera, and talk to clients is called the big beautiful bond market.

17:23-17:23: Right.

17:23-17:27: So a play on the big legislative package, obviously.

17:27-17:33: But we were actually, Phil, are in a big kind of raging bond bull market right now.

17:33-17:33: Right.

17:33-17:37: And it started almost exactly three years ago this week.

17:37-17:39: So what happened in October of '22, right?

17:39-17:42: The Fed—remember, they're only about halfway done hiking rates.

17:42-17:45: They were going from zero to five and a half really fast.

17:45-17:50: The funds rate was like barely at 3% three years ago, and they were still hiking.

17:51-17:53: It's hard to believe it was that recently.

17:53-17:57: And the 10-year Treasury yield got into the fours, right?

17:57-18:02: And when it got into the fours, we started pounding the table and said this is really kind of overshoot a little bit.

18:02-18:07: Remember, the 10-year hit 5% briefly a couple of times in the last few years.

18:07-18:22: And Tom and I have been calling that like the overshoot zone, like four and a half to five on the 10-year. I think you back up the truck, you buy as many bonds, you add interest rate risk in your bond portfolio, meaning you add duration. Four to four and a half, to me, feels like just the cheap zone of the 10-year Treasury yield.

18:22-18:25: Three and a half to four is kind of fair value.

18:25-18:30: And we're right at the high end of that. Like you said, we're right at 4% right now.

18:30-18:32: So we're at the bottom of the cheap zone.

18:32-18:37: And the high end of what I think is fair value.

18:37-18:43: Anything below 3.5% yield on Treasury probably means that the economy is slowing really fast.

18:43-18:43: Right.

18:43-18:45: And so that's something you want to be cautious about.

18:45-18:50: If you look back three years, Phil, from today and look at things, you know, your typical bond funds.

18:50-19:09: To look at our—the PGIM Total Return Bond Fund I mentioned, which is a very high-quality, liquid, really diversified intermediate-duration, you know, US bond fund—it has returned, believe it or not, almost 8% after fees annualized for three years now.

19:09-19:11: It's like, I think that's a number.

19:11-19:12: That's a great number.

19:12-19:15: Yeah, yeah, that's a number that surprises a lot of people when they hear that.

19:15-19:17: They're like, well, I thought the bond market was terrible.

19:17-19:19: It's like, well, it was terrible.

19:19-19:23: 2022 was a terrible repricing of interest rates.

19:23-19:23: Right.

19:23-19:28: When the yields went from kind of 1 to 5, bonds were down 12% that year.

19:28-19:30: And everybody was saying, when do we get that back?

19:30-19:32: I'm like, well, you will get it back, right?

19:32-19:35: The yields are so high that you will earn it back over the next few years.

19:35-19:43: So sure enough, I mean, you're punching like these really high returns annually for three years now in high-quality fixed income.

19:43-19:50: Now the high-yield market has posted, you know, 10 or 11% annualized returns for three years right now.

19:50-19:50: Right.

19:50-19:54: I mean, it's like our own little tech stock within the bond market here.

19:54-19:55: It's really been amazing.

19:55-20:01: And now I don't think we're going to continue to generate, you know, these 8% or double-digit returns annually in fixed income.

20:01-20:05: But the starting point on yields is still pretty high, right?

20:05-20:10: I mean, our Total Return Bond Fund is yielding, you know, probably just over five or something like that.

20:10-20:10: Right.

20:10-20:13: And in fixed income, as you know, yield is destiny.

20:13-20:18: Like the beginning yield on a bond fund is typically what you earn over the long term.

20:18-20:34: So yeah, I mean, I've certainly been advocating—we've been advocating to our clients to, you know, rotate or rebalance out of stocks to some extent because they are very fully valued, especially the high-growth tech stocks, and into fixed income, which is cheap, right.

20:34-20:40: So you have an asset class that's expensive and another one that's cheap, and you're supposed to rebalance or reallocate.

20:40-20:46: So that's been our advice, and I think a lot of our clients have done that in our portfolios.

20:46-20:53: We've been adding duration or interest rate risk to take advantage of what we think are pretty high interest rates.

20:53-20:55: That harkens back to a lot of our conversations.

20:55-20:59: It's wonderful if you've made money in the Magnificent Seven and you have all these wonderful profits.

20:59-21:13: But at a time when we think interest rates are ultimately going to fall, and I would add to Mike's comments saying I think the Fed is going to fight to get their way where they see inflation get back to 2%, which means yields maybe fall another half of 1% or 1%, depending on the types of bonds you own.

21:13-21:16: That means the price goes higher as yields go lower.

21:16-21:23: So what that means is you can have not just a wonderful yield in your portfolio, you can get that price appreciation if the price is going higher.

21:23-21:27: But also you take some profits—Finance 101, take some profits once in a while.

21:27-21:36: There's nothing wrong with taking some profits and pivoting to an area where you can have some success and, by the way, maybe take some risk out of your portfolio.

21:36-21:36: So that's...

21:36-21:48: Mike, you're spot on with something that's near and dear to the folks that listen in—that it's never a terrible idea to be smart about where you can kind of take out some real return after you've had so much success.

21:49-21:54: Mike, how do you look at days like today when some of the headlines are really hard to swallow?

21:54-22:06: For example, the—you go in the new tariff, no more conversation with Canada whatsoever because of an issue with the recording that Ontario put out about Ronald Reagan to canceling that completely.

22:06-22:14: Or the latest headline in China that Xi wants to be even more aggressive with the United States, whether some lithium and no longer consulting with his own cabinet members.

22:14-22:16: Some of these kind of headline-grabbing things.

22:16-22:18: I'll give you the latest one I saw this morning too, which made me laugh.

22:19-22:21: On my phone—you know, you get little pop-ups on your screen.

22:21-22:26: Well, CNBC puts out a blue that says inflation lower than expected.

22:26-22:28: Missed expectations below, which is great.

22:28-22:33: Then CNN, I get one, inflation higher than 3% because of tariffs.

22:33-22:35: Well, yes, they're both actually right.

22:35-22:38: 3% is still pretty high, but it was lower than expected.

22:38-22:41: Yet it all comes down to these headline moments.

22:41-22:44: How do you look at those, and how would you give folks advice on that kind of stuff?

22:44-22:50: You know, I mean, the headlines are brutally worrisome, for sure.

22:50-22:53: They kind of paint a picture of a lot of uncertainty.

22:54-22:55: But you know what?

22:55-23:05: I think one thing we've learned, certainly in Trump's style, is, you know, he's a hardline negotiator, you know, arguably an effective negotiator.

23:05-23:17: And I think you do have to take with a grain of salt a lot of the kind of the bluster and those headlines, you know. I mean, there's nothing to gain, you know, for the US and China, you know, not working together.

23:17-23:27: There's nothing to gain, you know, for the US and Canada and Mexico and Europe, who are gigantic trading partners, not to, you know, resolve—come up with some resolution.

23:27-23:38: I think one thing we've learned is, is the actual results, the actual trade deals that come up, are much less painful to the economy, to companies, than these, than these, you know, market-grabbing headlines.

23:39-23:44: You know, I learned a long time ago that sometimes, you know, you look at the data, and it tells you what's going to happen in the market.

23:44-23:48: Sometimes you look at the markets, and it's telling you what's really happening in the world.

23:48-23:48: Right?

23:48-23:54: And to your point, the markets are at all-time highs—the stock market's at all-time highs, you know, bond yields have been coming down marginally.

23:55-24:04: I mean, the markets are certainly ignoring all that geopolitical risk and that headline risk and the tariff risk, maybe at their own peril.

24:04-24:04: Right.

24:04-24:11: And maybe they're whistling past the graveyard, as they say, you know, meaning just, you know, just going up for the sake of going up.

24:11-24:13: And there's a lot of momentum, and people are chasing it.

24:13-24:22: And I actually believe, you know, there probably is a stock market correction, you know, in our future, but that's not really going out on a limb because those things happen all the time.

24:22-24:28: Like 10, 20% corrections in the stock market are very commonplace, almost annual events historically.

24:28-24:39: So, you know, don't be surprised if you see something like that, you know. So, so I don't—I think you have to disregard or take with a grain of salt a lot of these really

extreme headlines.

24:39-24:43: I mean, the wars we're seeing in the world are absolutely bad.

24:44-24:48: But I feel like to set the markets off, you almost need like a new shock.

24:48-24:53: You need something that's very different than what we've been hearing for the last couple of years.

24:53-24:58: And I don't know if that's in the cards—a catalyst of some sort to bring things lower, but there could be one.

24:58-25:07: For example, inflation data today was mild, but what if the Fed comes out and says, well, just one cut because we're still not breaking where you were trending sideways.

25:07-25:11: And goods inflation—we're seeing price on things imported go a bit higher.

25:11-25:17: An initial round was that tariffs are only going to be shared by the corporations importing and distributing and not so much the consumer.

25:18-25:29: But this next round, when we see maybe some of that early inventory stuff that was shipped in, get used up for the holiday season, maybe January, February, we start to see some higher numbers.

25:29-25:30: So that could be the shock.

25:30-25:32: I did notice one thing—that consumer spending.

25:32-25:33: I'd love your thoughts on this.

25:33-25:36: The consumer just keeps hanging in there.

25:36-25:39: And you're right, it's been higher prices, folks just doing enough.

25:39-25:43: But we're not seeing a lot of defaults in credit cards—some in auto loans, but not a ton yet.

25:44-25:51: The consumer continues to see more strength than even I would have expected, especially with some of the latest round of data on spending.

25:51-25:52: What are your thoughts on the US consumer?

25:52-25:53: Healthy.

25:53-25:53: Not healthy.

25:53-25:54: How do you look at that?

25:55-26:04: Ya know I'm a big believer we're embracing this K-shaped economy or K-shaped consumer they talk about, which means the top end are doing great.

26:05-26:14: The top 10% of the wealthiest people in this country, Phil, account for almost half of GDP. I mean, it's—and the other half is AI capital investment, right?

26:14-26:19: So, I mean, the US economy is running on a two-legged stool right now, right?

26:19-26:23: It's the wealth effect, and it's the AI investment, right?

26:23-26:24: You take those away.

26:24-26:26: US GDP is at zero, right?

26:26-26:28: So, I mean, it's really kind of remarkable.

26:28-26:34: And the wealth effect is real, and it is powerful, and it is driven by, you know,

these interest rates that have been high.

26:34-26:36: I mean, I own a lot of fixed income, right.

26:36-26:42: I'm a bond guy, and in my personal portfolio, I probably own more bonds than you or, you know, any of your advisors would recommend.

26:43-26:52: And we're printing these big coupons, and I have cash pouring into these portfolios, and, you know, but I have enough wealth—I can own bonds, right?

26:52-26:54: We own a lot of stocks, we own houses, right?

26:54-26:59: And that wealth effect for the higher-end consumer is very powerful.

26:59-27:01: And there's a trickle-down effect of that, right?

27:01-27:07: When you take your vacation and, you know, you—how many people do you know have gone to Europe in the last couple of years, right?

27:07-27:13: And—or you buy a car, or you buy a vacation home, or, you know, whatever.

27:13-27:20: I mean, there is a trickle-down effect to that, and the other 80-90% of the people in this country are benefiting from that to some extent.

27:20-27:22: And wage growth has been decent.

27:22-27:24: I mean, wage growth is coming down.

27:24-27:28: It was at 5.5% during COVID when you couldn't find workers.

27:28-27:31: Now it's down to in the threes, right?

27:31-27:35: And it looks like it's going to continue to go down as the labor market weakens.

27:35-27:41: But I am worried about the bottom rungs, and it could be even the bottom 80%, Phil, of the consumers in this country.

27:41-27:50: And I think if you look at credit card delinquencies, auto loan delinquencies, student loan delinquencies, they're actually all spiking.

27:51-27:54: They're actually as high as they were during the Great Financial Crisis.

27:54-27:59: But remember, during the Great Financial Crisis, the things that really blew up were mortgages, right?

27:59-28:00: People couldn't pay their mortgages.

28:00-28:02: That is not the problem this time.

28:02-28:11: Like the things that caused the problems in the past, like in the banking sector, the mortgage sector, the housing sector, you know, are not problems this time, right?

28:11-28:17: It's other things, and it'll be different things, different catalysts, as you put it, to kind of cause the economy to weaken.

28:17-28:29: And there is a growing body of evidence that the lower-end consumers—and again, when I say lower-end, it could be a really big percentage of the consumers in this country—are really struggling with these high rates.

28:29-28:29: Right.

28:29-28:32: They're not benefiting from high yields like people who own bonds are.

28:32-28:38: They're paying high rates on their student loans, on their auto loans, on their credit cards, and on their mortgages.

28:39-28:40: And rents are high.

28:41-28:43: And it's really getting brutal for a lot of people.

28:44-28:51: And you are seeing personal bankruptcies and small business bankruptcies increase, and you're starting to see credit problems in even the biggest companies.

28:52-28:58: You've had several big high-profile defaults in the last few weeks in the corporate bond markets.

28:58-29:00: And these are big companies who had a lot of debt.

29:00-29:07: There might have been some fraud or just some really aggressive off-balance-sheet financing associated with them.

29:07-29:09: But that's what happens when you get late in the cycle.

29:09-29:10: Right.

29:10-29:11: These things start to pop up.

29:11-29:16: So I'm just starting to see some more yellow flags that I am getting worried about.

29:16-29:16: Right.

29:16-29:18: So the consumer, yeah, on average, looks great.

29:19-29:25: But I think if you really look under the covers, it's not as pretty of a picture as it seems.

29:25-29:27: I'll add to that.

29:27-29:28: We've done some research on it.

29:28-29:31: The top 1% of the country own 33% of the assets.

29:32-29:34: The bottom 50% only own 3.

29:34-29:39: So the wealth effect is a real thing, and it is those high-end consumers that are buying first-class seats on Delta Airlines.

29:39-29:41: But you're not seeing a broad-based effect.

29:41-29:44: I do think the wage piece that you hit on was very powerful.

29:44-29:46: But you're right, that's leveling off now.

29:46-29:52: So we're at this kind of point where do we break and go down further because of unemployment, bad debt in the markets?

29:52-29:53: We saw some private debt.

29:54-30:02: I think it's a one-off but come up with some fraud issues in there, or do we level off and grind higher because maybe we get a manufacturing renaissance?

30:02-30:09: Maybe the expectations of \$2 trillion spent on new manufacturing facilities and the efficiencies of AI drive us higher.

30:09-30:11: And that's that fun conversation we try and have.

30:11-30:15: Everybody on the podcast is each week is, I think we end up in one of two ways.

30:15-30:27: It gets worse here—we recess—or we get to a mild steady growth higher because of some of these catalysts, and maybe they work out. And the big one's the Fed. You hit on something that's near and dear to me that I still think the Fed did a great job post-pandemic.

30:27-30:34: But I think they've been a little too high, and the average person who does have credit cards or auto loans is waiting for rates to get lower.

30:34-30:34: So do you think...

30:34-30:39: You mentioned this earlier, but just to recap for everybody, is it one cut, you think, this year, or two cuts this year?

30:39-30:42: If you had to guess, they're cutting next week and then they're cutting again in December?

30:42-30:47: I would—I think two cuts are kind of set in stone at this point, and that's what the markets are pricing in.

30:47-30:49: So it's not a big surprise.

30:49-30:54: And again, I'm not going out on a limb, but I think they're going to cut, you know, next week and again in December.

30:54-31:05: I would agree with you, except I'm a little bit concerned about 2018 because the last time we saw a scenario like this when the Fed kind of screwed it up in the month of December was 2018, and boy, did the market get walloped.

31:05-31:07: Bonds, stocks, everything.

31:07-31:11: And because they made a misstep and then they tried to correct it before it was too late, but it was just too late.

31:11-31:13: So hopefully they don't have a misstep there.

31:13-31:13: But I would agree with you.

31:13-31:15: I think probably two makes the most sense.

31:15-31:22: One fun topic that I talk a lot about, I've mentioned on this podcast for folks, is I think munis are a generational opportunity.

31:22-31:32: But I live in New Jersey, you know, New Jersey, if I can go out and get a 5% municipal bond from the state of New Jersey for the next 10 years and have an effective yield of, call it 7 or 8 because I'm not paying any tax on it.

31:32-31:33: Not federal, not local.

31:33-31:37: But munis have just not had a banner year compared to everything else.

31:37-31:38: I'd love your thoughts on the muni market.

31:38-31:40: I think it's generational, but maybe I'm wrong.

31:40-31:41: What do you think?

31:41-31:50: Well, you know, I became a—I became a Florida resident instead of a New Jersey resident five years ago, Phil, to take advantage of the tax arbitrage.

31:50-31:50: Right.

31:50-31:53: So taxes are real, and they're painful.

31:53-31:57: And anytime you can avoid them, it's, you know, really helpful for your financial health.

31:57-32:08: And municipal bonds, they were actually—if you—if this podcast was two, three months ago, I would have said they are really cheap, meaning they have underperformed all other parts of the bond market.

32:08-32:14: And they actually looked really attractive on a, like you said, a tax-equivalent basis versus almost anything else in the bond market.

32:15-32:24: Now in the last month or two, they've actually rallied, and they've kind of caught up with some other things, and they've actually had some pretty—posted some pretty good returns recently.

32:25-32:29: So now maybe they're just kind of fair value, you know, or a little cheap.

32:29-32:31: They're not like pound-the-table cheap like they were a few months ago.

32:31-32:43: But, but heck, if you're in a, you know, a high tax bracket and you're in a high tax state and you can get some kind of benefit, you know, from by owning municipal bonds—I mean, you can buy a municipal bond.

32:43-32:44: We have like a high-income municipal bond fund

32:44-32:49: That's probably yielding, you know, close to the mid-single digits or something like that.

32:49-32:51: You know, that's after taxes.

32:51-32:51: Right.

32:51-33:02: So, I mean, there is value in that market, and it should definitely be a part of your clients' and your listeners' portfolio if they're, you know, in a high, high tax bracket for sure.

33:03-33:04: That's powerful.

33:04-33:06: Well, we're almost at the end here, buddy.

33:06-33:07: We have two last things to do together.

33:07-33:09: I'd love for you to sum this up for everybody.

33:10-33:18: If you had them—if you left them with one solid idea for Mike and your view of what's happening, you know, economy, bond market, what would you like to leave people with?

33:18-33:25: You know, I mean, we talked about the different scenarios and the different directions the economy can take, and again, we don't know—nobody knows.

33:25-33:28: But it feels to me like the markets are pricing in...

33:28-33:29: Like all the good news part.

33:29-33:39: Like they are—they are pricing in or pulling forward this whole AI revolution and this productivity boom and kind of permanent growth and lower rates, and that doesn't always square with me.

33:39-33:40: Right.

33:40-33:45: It's—I think there's a reasonable and probably a growing probability that something breaks and something goes wrong.

33:45-33:53: Whether it's a policy mistake on trade or by the Fed, or maybe inflation picks up again, or maybe the job market unravels.

33:53-33:55: I don't think those risks are being priced in appropriately.

33:55-33:55: Right.

33:55-34:04: So I think it's a really smart idea for people, again, to rebalance. If you have too many equities in your portfolio, especially the high-growth equities...

34:04-34:13: I mean, if stocks are 70, 80, 90% of your portfolio, it's probably too high, especially if you're getting into your 50s and 60s.

34:13-34:18: And like I said, stocks are kind of fully valued, and bonds are relatively attractive.

34:18-34:18: Right.

34:18-34:20: So the rebalance is easy.

34:20-34:26: And if you have that downside tail risk—you have that shock to the system, that catalyst that causes things to go down...

34:27-34:33: Bonds can actually go up in price in that world because the Fed will cut rates into the twos, not into the threes.

34:33-34:33: Right.

34:33-34:35: And that's not priced in.

34:35-34:40: So if they cut the funds rate to 2% instead of stopping at 3%, wow.

34:40-34:43: You have a lot more upside in total return and fixed income.

34:43-34:43: Right.

34:43-34:44: Where your equities will be down.

34:44-34:48: So, so the hedging quality of fixed income, I think, is alive and well.

34:48-34:50: So that's something to really take away.

34:50-34:54: Thinking about broad asset allocation in your client portfolios.

34:54-35:03: Couldn't have said it better. We talk a lot about take profits, sell some of your Nvidia or any of these other magnificent names that have done really well, wherever your money might be.

35:03-35:06: We like small caps, believe it or not, because valuations are better.

35:06-35:13: But I like the bond market more as they'll create balance of risk, but also an opportunity to do well almost regardless of what happens.

35:13-35:20: I mean, the one scenario is inflation went higher, and if the Fed had to raise rates, I don't think, Mike, I would agree that that's very unlikely, but I guess it could happen.

35:20-35:26: That's the only scenario where you probably lose money in bonds, but in the scenario of a worsening economy, you do well.

35:26-35:27: A sideways economy, you do well.

35:27-35:30: Great, wonderful income in your portfolio, balanced risk.

35:30-35:31: I mean, I think it's great.

35:31-35:34: All right, Mike, I do this thing where I do the shout-out of the week.

35:34-35:36: If you have anything or anybody out there in the world that you'd like to say something nice about, fire away.

35:36-35:43: If not, I'll take the mantle.

35:43-35:44: Well, well, two people.

35:44-35:46: One, my younger brother Tom.

35:46-35:48: Tommy Collins just passed away a couple weeks ago.

35:48-35:50: It was a sudden shock.

35:50-35:54: And I'm actually in New Jersey to go to his celebration of life tomorrow in Point Pleasant.

35:54-36:01: So we're honoring Tom this weekend, and, you know, I'm a Jersey guy, I'm a huge Bruce Springsteen fan.

36:01-36:05: Phil and I have been dying for his new movie to come out, and I think it comes out today.

36:07-36:12: You know, I am certainly going to be one of those folks who sees his new movie sometime in the next, in the next few weeks.

36:12-36:17: I think it's called, you know, *Bring Me Home from Nowhere* or something like that.

36:17-36:19: But it's the guy from *The Bear*.

36:19-36:21: Remember that movie about the restaurant?

36:21-36:25: The actor in *The Bear*, he plays Bruce Springsteen, and he actually sings.

36:25-36:28: But the movie's getting rave reviews, so I'm excited about that.

36:28-36:28: Wow.

36:28-36:29: Look forward to it.

36:29-36:30: Well, God bless you, brother.

36:30-36:31: I mean, I'm sorry he passed.

36:31-36:32: That's very terrible.

36:32-36:36: But sounds like you come with a big Irish Catholic family who's going to have a lot of support and love for him.

36:36-36:36: So.

36:36-36:37: So God bless them.

36:37-36:39: And I hope your family recovers from that.

36:39-36:40: That's very sad.

36:40-36:41: But as far as Bruce goes, I agree with you.

36:41-36:42: Good, good one, very.

36:42-36:43: Two great ones.

36:43-36:43: Thank you.

36:43-36:46: Mine's an easy one.

36:46-36:57: I applaud all these folks who work for the federal government that they're either going in and helping with inflation data, but more importantly, all those people that work at the airports, you know, those folks who work at the towers aren't being paid.

36:57-36:59: Many of the TSA people are not being paid.

36:59-37:01: The military folks not being paid.

37:01-37:08: So those guys, those guys and gals that show up every day to help our lives feel like this shutdown has been, so far, not important.

37:08-37:09: There's never been a shutdown.

37:09-37:11: That's lasted, I believe, longer than 31 days.

37:11-37:15: We've never had a recession from a shutdown, had very little economic impact.

37:15-37:17: But there are people that feel this.

37:17-37:27: And for the folks out there that are feeling it, whether they can't, you know, maybe go out to dinner because they're having to use their savings or have a struggle, may struggle for their mortgage, I hope the federal government comes to a resolution for those folks.

37:27-37:27: And I get.

37:27-37:30: We have a time when we want to bring down government spending.

37:30-37:33: There's some things to debate, but let's not use those people as pawns.

37:33-37:34: I think that that's a terrible thing.

37:34-37:38: So my hats off to them for showing up every day in spite of the fact they're not getting a paycheck.

37:39-37:40: Mike, thanks for joining me, buddy.

37:40-37:45: This has been a lot of fun today, and I look forward to doing this again at some point, but you're awesome, buddy.

37:45-37:46: I really appreciate it.

37:46-37:47: Been a real pleasure, Phil.

37:47-37:54: And we can always commiserate about those Yankees and even my giant Giants, but the Knicks are starting up, so I'm excited about that.

37:54-37:56: I mean, the Giants have potential and the Yankees.

37:56-37:59: Well, we'll see maybe next year with our pitching staff coming together.

37:59-38:00: I listen, I don't want.

38:00-38:03: I certainly don't want Toronto to win, but I'll take the Dodgers over Toronto.

38:03-38:06: I think, Ohtani is something we all should behold before he's gone.

38:06-38:09: I mean, that guy's certainly a generational talent, but besides that, I'm with you.

38:10-38:11: Jersey guys are Jersey guys.

38:11-38:12: We gotta love our Giants.

38:12-38:14: We gotta love our Yankees, and this is where we are.

38:14-38:15: Thanks, my friend.

38:15-38:16: I appreciate you joining me today.

38:16-38:17: Take care, pal.

38:17-38:18: Pleasure, Phil.

38:18-38:18: Thank you, guys.

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