1) As regular readers know, my most important indicator for reasons stated on numerous occasions has been HYG. This index kept me steadfastly bullish throughout this incredible bull run since the lows of Liberation Day Week. While the Index has remained consistently above its upward sloping 200 day moving average throughout 2025, the 50 day has not been as uniform and had been somewhat flat to downward sloping over the last several weeks. This anomaly may relate to the fact that HYG goes ex dividend the first of each month and actually traded ex twice in December to meet tax distribution requirements on net investment income for which some technical models do not adjust their charts. This week the 50 day again turned upward sloping again and there appears to be strong support from the lows of mid to late November. It would take a significant break below the 200 day to turn this writer decisively bearish. Should the 200 day be broken, expect a meaningful negative impact on equities across the board. It is somewhat counter-intuitive for HYG to be acting in such a positive manner given the length of this robust economic cycle, but it is difficult to argue with the data.

2) Continuing with the theme of the impact of the fixed income market on equities, Paul Shea (Miller Tabak Economist) recently unveiled his predictions for 2026. Given the uncannily correct yet out-of-consensus his forecasts have been, investors need to incorporate these thoughts into their overall analysis, He is more optimistic than most about inflation in 2026 and he believes "inflation fears will fade away" due to falling shelter numbers, as well as the fact that tariff-induced inflation will not persist. He also believes that his weak economic outlook will eliminate any lingering inflation. Moreover, he expects the Fed to cut rates beginning in March with 100 bps of cuts to take the Fed Funds rate to 250-275 bps, slightly below neutral. While somewhat puzzled by the disconnect between GDP growth and the weakening labor market, he states that GDP growth has typically slowed to match a weak labor market which he expects to happen again. The potentially good news is that he predicts the yield on the 10 year will decline to 3.40% by Christmas, 2026., which is clearly not Street consensus and can be interpreted by investors either way for the direction of the equity market.

3) Please note there are several measures from what has been labelled as the "Big Beautiful Bill" which take effect in 2026 that should be helpful for equities. The most meaningful of those is the accelerated depreciation for certain equipment and structures, especially related to AI infrastructure and data centers which will encourage front-loaded capex by the hyperscalers and semiconductor names. On-shore manufacturing will also gain from these provisions. As for the consumer, remember that the Bill institutes a permanent extension of the individual tax rate cuts maintaining the 37% top marginal rate which was scheduled to revert back to 39.6% obviously a help to consumer spending as well;higher standard deductions and new targeted deductions which will raise after-tax income for many at the lower end of wage earners.

4) While the new QE program is only 2 weeks old, this program, almost be definition, should be productive for net liquidity. While differing from classic QE which emphasized the purchase of long-dated Treasuries and agencies, added liquidity from this version of QE improves risk appetite and can be argued will keep the equity market above levels justified by the fundamentals. With the Fed framing this as pre-emptive liquidity management rather than emergency crisis QE supports this narrative.

5) To the majority of investors, including this one, the most important equity etf is SMH. Recently, the bears smelled blood when the SMH closed meaningfully below both its upward sloping 50 day moving average and smashed through the lows of early December. Yet to the chagrin of the bears and due mainly to strong fundamentals from some of its components, SMH has surged for the last 2 weeks to close well-above the 50 day, a completely frustrating move for equity bears.

6) I have written extensively about the importance of HOOD to the equity markets, the reasons for which I will not repeat. Suffice it to say that I have been wrong on the impact of the correction in HOOD (down over 22% from its October highs) to the overall market and to the financial sector specifically. The performance of HOOD may relate particularly to the disappointing action in digital gold (discussed below). Despite the correction in this equity, many individual issues within the overall financial complex are displaying strong relative performance due to fundamentals.

7) The movement in the VIX is clearly worth mentioning in this week's Comments. The VIX closed this week at a low point for the year and registered a low tick on Christmas Eve. Bulls will dismiss this complacency move to seasonal factors (Santa Claus rally). While true, such quantitative complacency cannot simply be shrugged off.

8) Two indices to which most institutional investors do not watch with intensity are worth noting. After lagging badly in the first half of the year, the Transpos have been displaying strong performance since mid-November with this Index now compiling 5 weeks in a row of a higher low. It would appear that investors are using this group as a proxy for continued weakness in the price of oil rather than as strength in the economy. Also note the Industrials have now shown 5 weeks in a row of a higher low. While no longer a true indicator of the health of the economy, the broad nature of the stocks in this Index suggests investors are not focused on a single industry.

9) Physical gold/digital gold: The breathtaking move in GLD y/t/d most importantly relates to unabated central bank buying but the prominent weakness in the US$ this week, taking out the lows of December, was a noteworthy factor. Given the continued weakness anticipated in the Yen, this dollar move is somewhat counter-intuitive. The situation with Venezuela intensified this week also aiding GLD performance. As for digital gold, investors are still recovering from the drastic sell-off caused by the reductions of highly leveraged positions in the expectations of an UPtober which never came to fruition. Believers in digital gold are convinced of the importance of added liquidity to the system, so the fact that the new QE program has not had an impact on prices is a major disappointment. It would also be logical to assume that many of the former day traders in crypto, given the performance, have moved in waves to the "prediction markets" . Digital gold bulls are hoping that the disillusionment with the utter fact that BTC will register a down year, leading to waves of tax selling, is about to conclude. Should there be a break below $83,800 in BTC, this will produce substantive selling.

Jeff

I hope all enjoyed a festive Hanukkah and Christmas and are looking forward to the Holiday this week.