MILLER TABAK + CO., LLC

Morning Comment

Tuesday, December 9, 2025

One The Recent Divergence Between the Bond Market and the Stock Market Should End Very Soon

- **A divergence has developed between the bond market and the stock market as we move towards tomorrow's important Fed rate announcement. That divergence should end very quickly after we hear from the Fed.**

- **Like the both the bond and stock markets, Oracle (ORCL) stands at a critical juncture on a technical basis. So, how it reacts to its earnings report tomorrow after the close will be extremely important.**

The stock market saw a mild decline yesterday on very low volume…and breadth that was not very compelling (less than 2 to 1 negative for both the S&P 500 and the NDX 100). The futures are bouncing back this morning…after President Trump announced that he will allow Nvidia to ship its H200 chip to China in exchange for a 25% surcharge. This has NVDA trading higher by about 1%…and that is helping buoy the broader market this morning as well.

The main reason why the activity in the marketplace right now is so subdued is the fact that the Fed will be announcing their decision on short-term interest rates tomorrow…and Chairman Powell will give his press conference shortly thereafter. There is little question that the Fed is going to cut rates by 25 basis points, so we're staring at a situation which is very similar to what we saw in October…in that there should be very little surprise with what the Fed does**. However, investors will be watching very closely to what the Fed says in its press release…and what the Chairman says in his press conference. Whether this expected rate cut is considered a "hawkish" cut…or a "dovish" one should be very important for how the market acts as we come out of this meeting.**

We all remember that although the Fed cut short-term rates in October, long term yields actually pushed higher in a material way following the meeting…and that led to a pullback in the stock market…which ended up lasting for several weeks. (Of course, the initial moves gave us some wild swings in both directions…like they always do. So, it will be important to let things trade for a while…but it shouldn't take too long to figure out the lasting reaction.)

Having said this, just because the markets gave us a somewhat surprising negative reaction to the expected rate-cut…does not mean we'll get the same reaction this time around. **<u>However, it's interesting to note that the "set up" for the bond market is much different than the stock market.</u>** Long-term Treasuries have sold off going into this rate cut…and are testing a key resistance level. (Thus, Treasury prices are doing the opposite…dropping down and testing a very important support level.).....Conversely, the stock

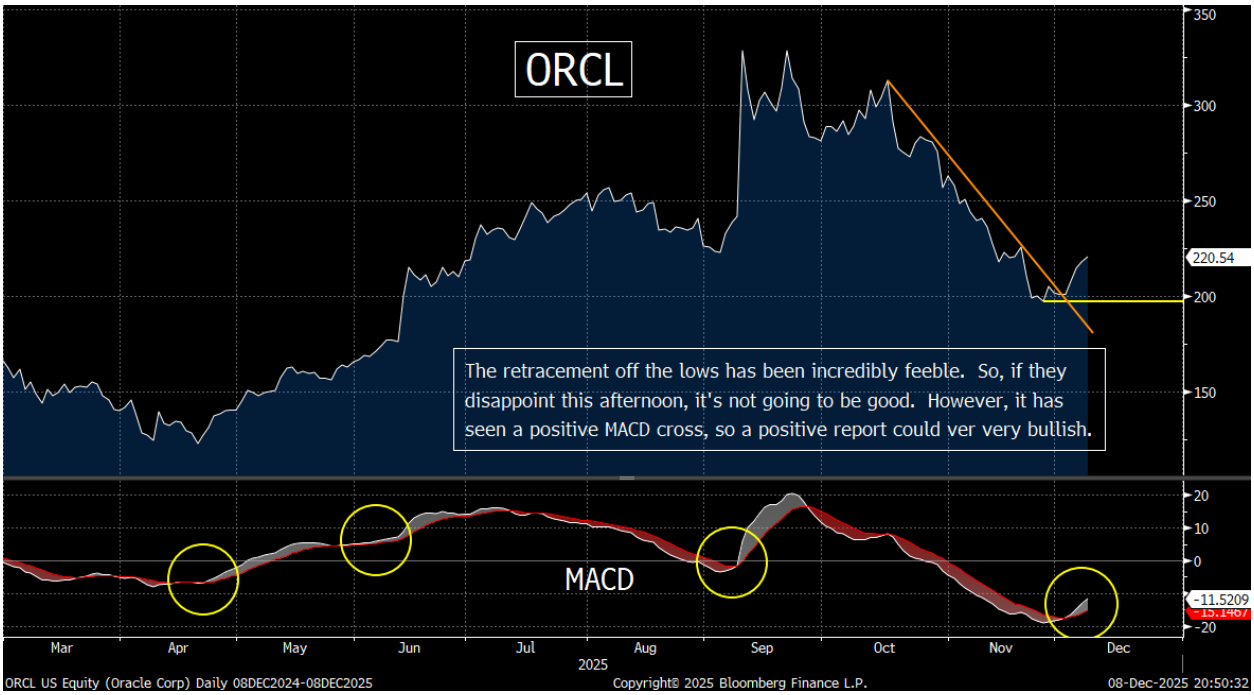
market has rallied going into this rate decision…and the S&P 500 stands just 0.6% away from its all-time highs. So, it's "set up" is a rather bullish one!

In our opinion, the odds are pretty high that the divergence between these two markets will not last very long…and that the reaction in the Treasury market to the Fed's announcement will be the one that carries the day as we move through the rest of the year. Therefore, we'll be watching that market much more closely tomorrow afternoon (and Thursday morning**). It's reaction should tell us how the both asset classes will fair over the rest of this year.**

On top of the Fed meeting tomorrow, Oracle (ORCL) reports their earnings after the close that day as well. After a huge rally of over 160% from April to September (and including at 45% moon shot after the agreement with OpenAI was announced), the stock then rolled over and lost 40% over the next two months. Much of the decline has surrounded their negative free cash flow from the aggressive capital spending to build its AI infrastructure capacity…and the addition of high levels of debt during that effort.

The bounce off the November lows has been a feeble one…retracing less than 20% of its recent decline. So, investors have not had the confidence to fight off these concerns and move back into the stock in any meaningful way. The huge jump in CDS prices for ORCL…to a level above its late 2022 highs, and up to its highest level since the Great Financial Crisis…has not helped their shares either.

That said, the bounce has still been an 11% rebound. It has also been enough to take it back above the trend-line from its recent steep decline…and it has given it a positive MACD cross. **So, even though the bounce has been a feeble one compared to most other tech stocks over the past couple of weeks, it still has some potential…if the news is positive**. In other words, if ORCL's earnings/guidance are enough to give the stock any meaningful upside follow-through, it's going to help it tremendously over the last three weeks of the year. However, if the stock rolls back over and takes out its recent lows (just below 200), it's going to be extremely bearish. Therefore, like the broad market, ORCL stands at a critical moment on a technical basis.



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