MILLER TABAK + CO., LLC

The Weekly Top 10

Saturday, December 6, 2025

Will "QE Lite" Be Enough to Buoy the Stocks When the Two Key Pillars Buoying Them Are Faltering?

We just want to reiterate that our number one goal with our work is to be correct with our analysis, BUT that another very important goal is to help investors think about the markets in a manner that they would not otherwise think about them. Therefore, we provide comments from both sides of the bull/bear ledger…while still letting you know which side of that ledger we stand at any give time. Thank you very much.

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---1) We were urged to watch the tape of an interview that took place last week by a well-known money manager…because those who were urging us to do so now that we were in almost total agreement with everything he said. We did indeed watch it…and we do indeed agree. With this in mind, we want to review some of the highlights…because we believe that not enough people give enough weight to the issue of budgetary problems when trying to understand why global long-term interest rates are rising.

A little birdie told us that we should watch the full interview that Jeff Gunlach gave after the Fed's announcement this week. They knew that we are (very much) in agreement with just about everything he said during that interview, so they urged us to watch it. We did indeed check it out…and except for the very end…when he said, "Go Bills"…we did agree with basically everything. (Doesn't everybody know that rooting against the Patriots…who play the Bills this weekend…is insanity??? When the Pats win, investors always win! Mr. Gundlach has got to bone up on his Wall Street rules…and learn about the "Patriots Indicator.")

Anyway, the number one issue of agreement we have with Mr. Gundlach surrounded his answer to the question as to why US (and global) long-term interest rates have been rising…even while the Fed has been cutting short-term rates. Without hesitation, he answered by blaming the budgetary problems here in the US and abroad. He focused on the US…highlighting that the deficit is 6.2% of GDP and that investors are becoming quite concerned about the interest expense on our Treasury debt. We have spent more time on this issue in other countries (especially in Japan), but he did touch on the rise in rates around the entire developed world, so we think we're on the same page…about what we have been saying about this issue in recent weeks.

Later in the interview, Gundlach also touched on something else that dovetailed VERY nicely with what we've talked about each of the past two weekends as well**. He said he has turned bullish on gold again…and spoke bullishly on a number of other hard assets…and that the dollar would likely continue to weaken (and thus help hard assets…and emerging**

markets) for the foreseeable future. Although we did not concentrate on EM's in our work recently, everything else was right in line with what we've been saying.

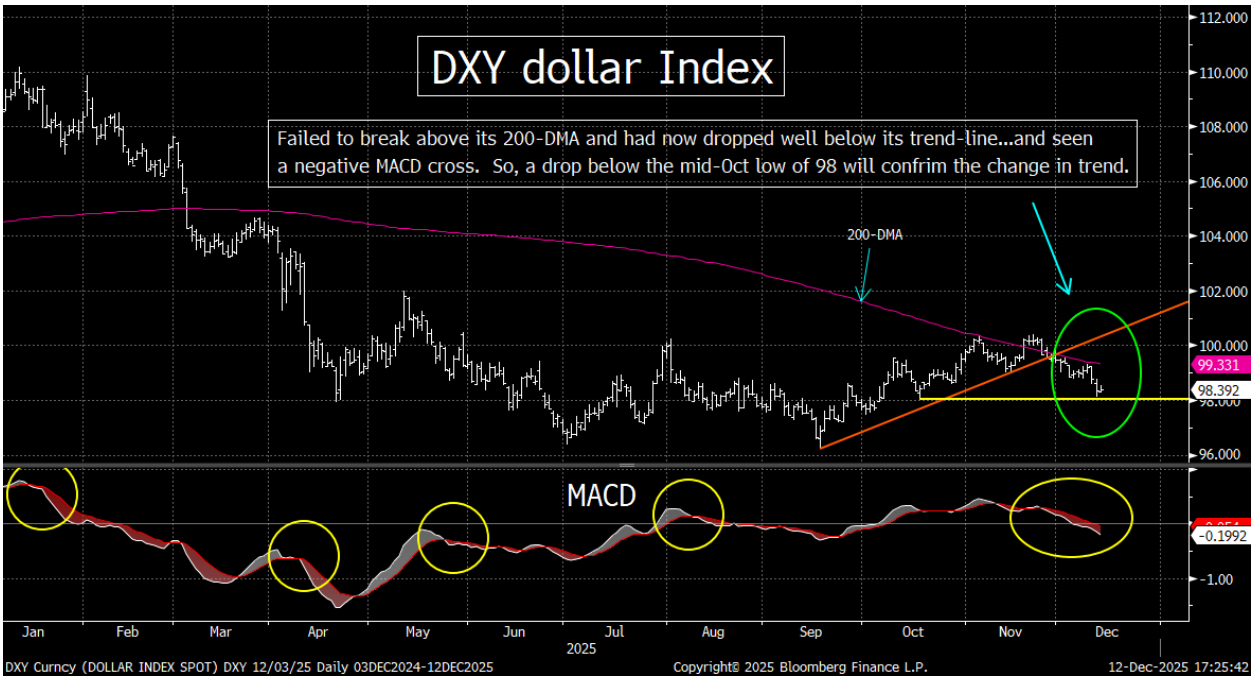
A big part of our argument has surrounded our concerns about the deterioration of the fiat currency system we live with today. They did not talk about this part of the issue specifically in that fabulous interview…and we understand why. But it is part of what everybody should be considering right now……No, we're not trying to say that we're on the brink of a major breakdown. However, we ARE saying that the situation is becoming big enough where it IS having an impact on the global markets.

Heck, despite the Fed's rate cut…and the consensus opinion that it was not a "hawkish cut"…the yield on the US 10yr note finished at its highest level since early September (and right on its KEY resistance level) last week! We'd also note that after a 3-day respite, yields in Japan jumped again on Friday. (More on this in the next bullet point.)

Most people want to blame concerns about future levels of inflation, but the consensus estimates for inflation next year in the US, Europe, and Japan are quite subdued. Thus, there is something else that is pushing these long-term yields higher…and we believe these global budgetary problems are the culprit.

We'll provide the chart on the US Treasury market…and other global sovereign debt markets…in point #2**. However, in this bullet point, we'd like to update the chart on the DXY dollar index we highlighted in early November…and again on Monday.** The greenback fell further in the second half of last week. Not only did it take the DXY even further below its three-month trend-line, but it also took it well below its 200-DMA (after not being able to regain that key line…despite trying to break it for a full six weeks). This helped it produce an even more compelling negative MACD cross, so there are many signs pointing to a key change in trend for the dollar**. The DXY closed just above 98…which was its low in mid-October. So, if it breaks below THAT level in any meaningful way, it will raise a big red flag on the US currency.** (Chart below.)

We'll end this point by highlighting one last comment he made. He highlighted just how expensive the stock market is today...and that it will eventually have to fall back to earth. **As you all know, this is something we have believed for quite some time. As we like to put it, the market is NOT "always right." It's only "always right" <u>eventually</u>.**

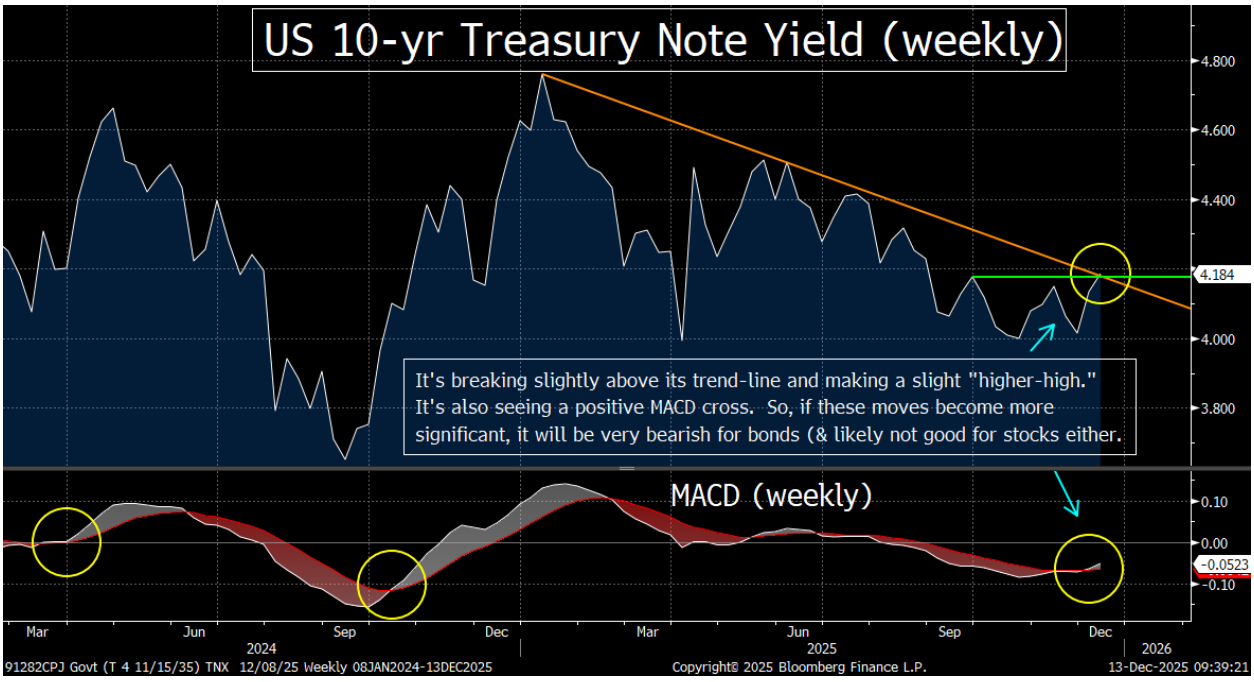


---2) Since we spent so much time talking about long-term bond yields, we thought we'd provide the updated charts on several of the global bond markets. We are going to immediately provide the updated charts on the yield of US Treasuries, Japan's 10yr JGB, and Germany's 10yr Bund. On top of this, we'll highlight the charts on the TLT and LQD ETFs (which measure the PRICE of longer-term US Treasury bonds and investment grade corporate bonds respectively).

There is little question that the general investment narrative on Wall Street is finally focusing on the global rise in long-term bond yields. Therefore, if these moves to the upside in yields continues over the coming days and weeks, they will very likely have an impact on many different asset classes. With this in mind, we want to look at various different charts for the global bond markets.

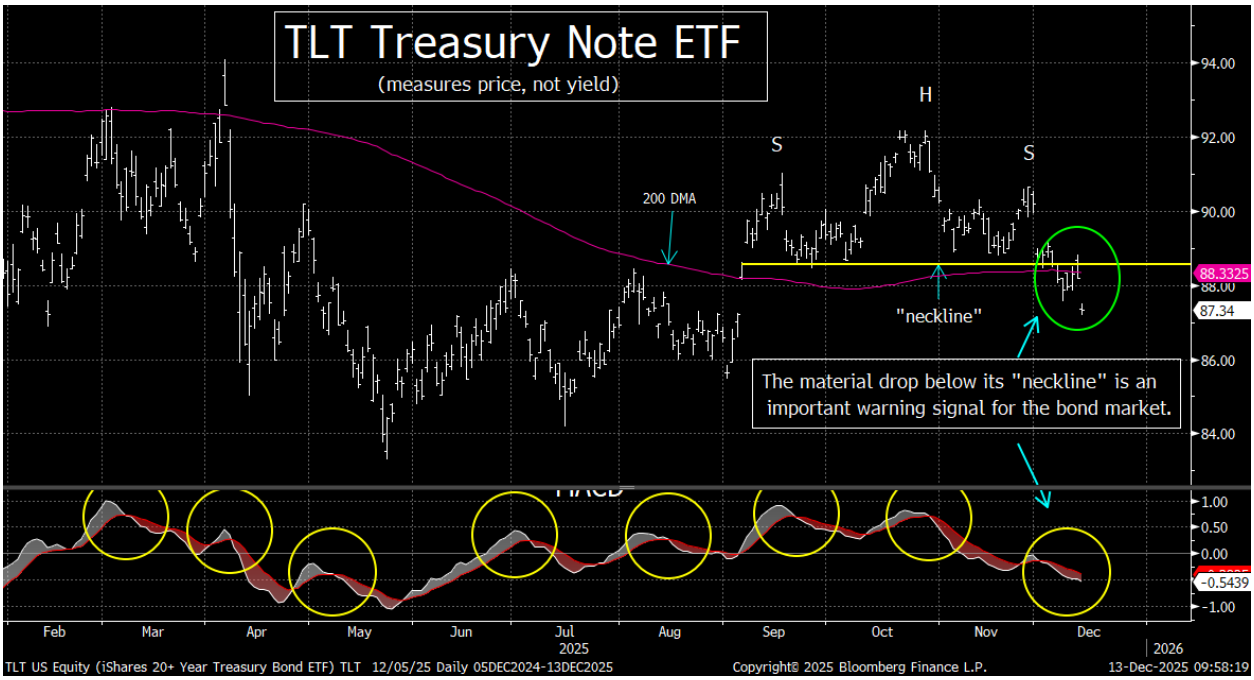
Well begin the review of the charts on this fixed income assets with the yield on the 10yr note. Since this is the one we provided in our Friday daily note, we'll be quick. Those yields did push higher on Friday…despite the fact that the Fed's new T-bill purchase program began that day. Of course, that program involves short-term securities, not long-term ones, **but the fact that these yields pushed higher after the Fed's announcement and the beginning of this purchase program…had to be disappointing for the bond bulls.**

This move took the 10yr yield very slightly above both tis trend-line from January and its closing high from September 26. It also gave it a little bit of a more meaningful positive MACD cross. However, these upside "breaks" in the yield 10yr note were very, very small**. So, there were certainly not enough to declare that a change in trend for long-term yields has definitely begun. However, it won't take much more upside follow-through to do the trick…**..In our opinion, a meaningful move above 4.2% will be something that raise the level of fear in the Treasury market considerably (and likely the stock market as well)…and a push above the 200-DMA (of 4.25%) should confirm the change in trend.



The next chart is the one on the TLT Treasury ETF…which measures Treasury note/bond prices, not yields. Last week's action did indeed take it

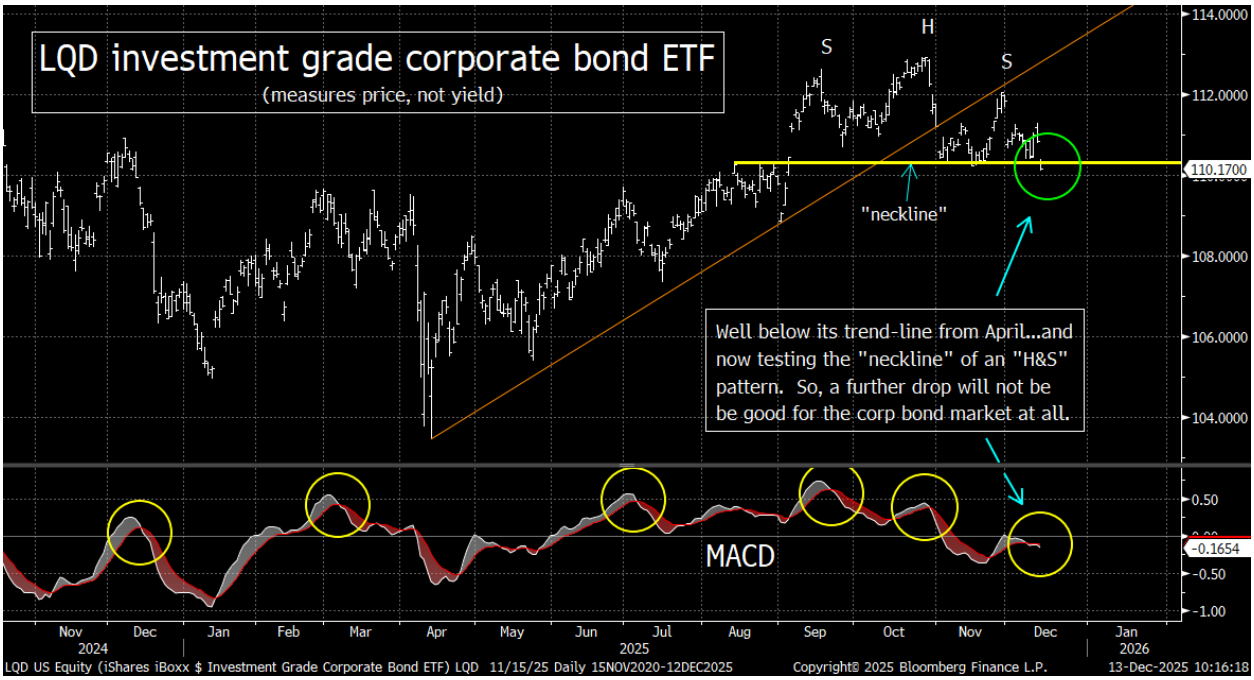
below the “neckline” of the “Head & Shoulders” pattern we highlighted last weekend. The thing that is particularly concerning is that THIS “break” WAS a meaningful one…and the negative MACD cross for the price of Treasuries IS becoming meaningful as well. Therefore, unless it bounces back very, very quickly…it’s going to confirm that an important change in trend is taking place in the Treasury market. **In other words, it will mean that the yield will indeed push higher quite soon. THAT will not be good for fixed income investors at the long-end…and it will likely create headwinds for the stock market as well.**



The technical backdrop for the high grade corporate debt market is very similar…**as the LQD high grade corporate bond ETF is also breaking below the “neckline” of a “Head & Shoulders” pattern.** This one is only a very minor “break” so far, but it has already broken WELL below its trend-line from last April. We would also note that it is seeing its third negative MACD cross…and the second one at a “lower-low” (and at below zero this time).

<u>THIS IS A CLEAR SIGNAL THAT THE MOMENTUM IN THE CORPORATE BOND MARKET IS DETERIORATING</u>!!! Thus, if the LQD does indeed fall more meaningfully below its current level, it’s going to be quite negative for this asset class <u>on a technical basis</u>…….We readily admit that we are not experts on the credit quality of the companies whose bonds make up this

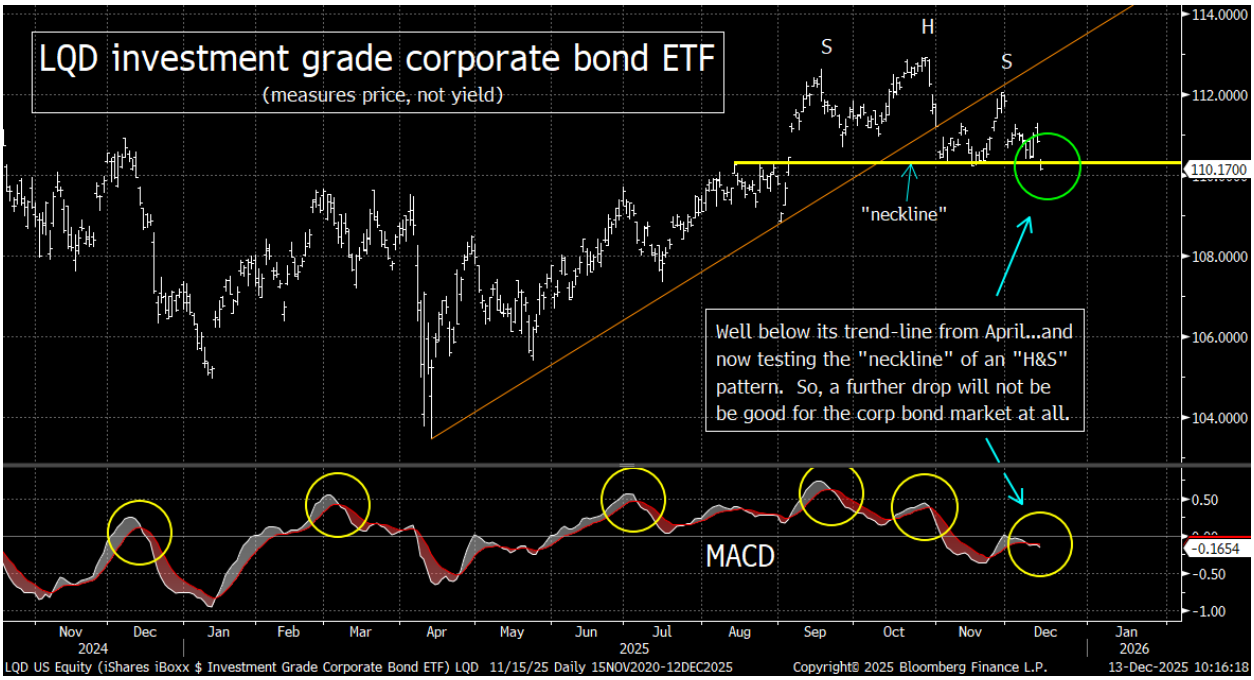
index. Therefore, we are not trying to say that we're heading for a credit crisis…especially not in the investment grade area. **However, what we ARE saying is that the technical backdrop in this area of the market is looking very dicey right now…and that does not bode well for companies who are looking to raise money in the debt markets in 2026.** In other words, it means that it might be quite a bit more expensive for some companies (like AI related co's) to raise money next year in the corporate bond market.



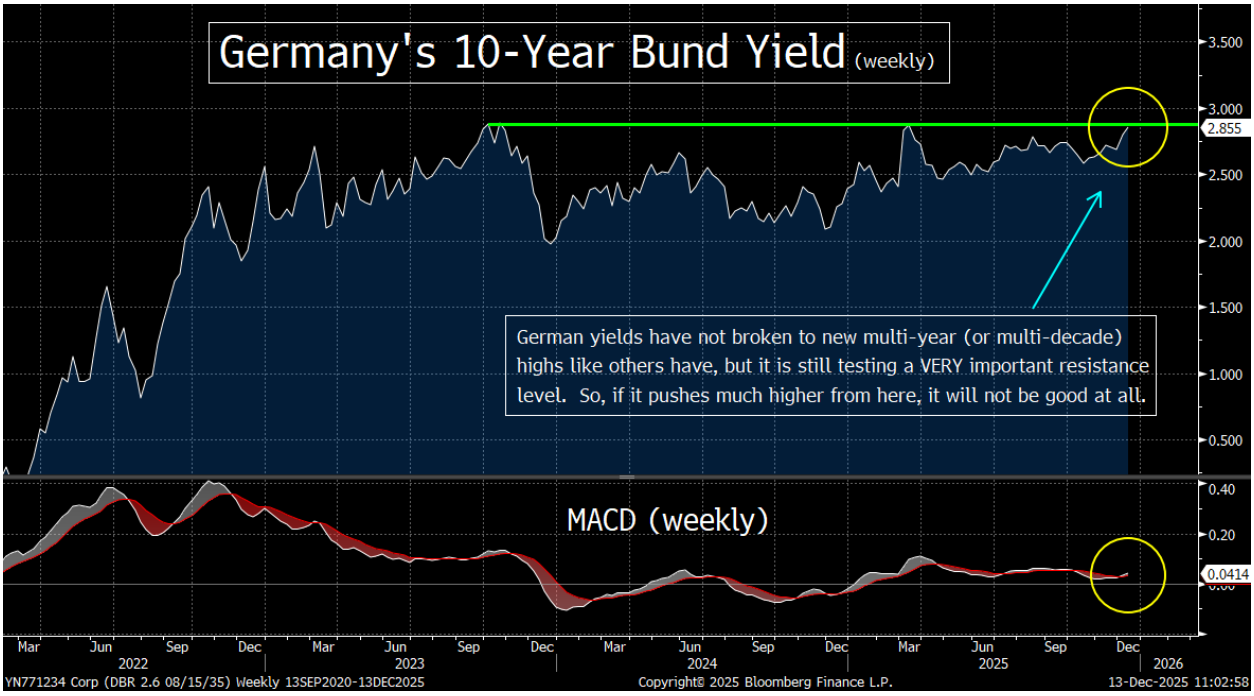
As for the yield on Japan's 10-year JGB, it bounced back again after a three-day respite last week…and finished with yet another "higher-high" on a weekly basis……..We have discussed the fundamental backdrop associated with this situation ad nauseam for several weeks now. So, we won't bore you by repeating them once again…except to say that they have an extremely serious budget problem…and they're trying to solve it with more debt! However, we still want to update the chart on this important global bond yield.

Not only have Japanese yields made a series of "higher-lows" and "higher-highs" for several years now, but the most recent move to a "higher-high" seems to be in its infancy (at least on a technical basis). It is just now seeing a meaningful positive weekly MACD. It has seen several minor head fakes this year, but this is the first "meaningful" one of this year. If you look what has

taken place AFTER a positive weekly MACD cross has taken place in previous years, it has been followed by FURTHER substantial rises. **Therefore, if that is the case this time around…and given the PM's recent budget proposal, that seems to be likely…this issue could become one of the most important issues facing the global markets in 2026!!!**



Finally, we want to highlight the yield on Germany's 10-year Bund……Unlike Japan, the UK, and France, Germany's yields have not pushed to multi-year highs (multi-decade highs in some cases), but it is still at a key technical level. It tested the 2.9% level in 2023 and in the first quarter of this year. It is now back up and testing that level once again. So, if it breaks above that 2.9% area in any meaningful way (say, about 3%), it's going to raise some compelling warning flags on Germany's bond market as well……So, as you can see, the situation in the European sovereign debt markets continue to make us very nervous.



---3) Even though Friday was a rough day, the tech stocks still hold up quite well. However, if they see any downside follow-through, I will definitely create some problems. Given how highly weighted the big tech names still are in many institutional portfolios, they might be reluctant to sell much right now. But if these negative issues keep adding up, that could change early in the new year.

There is no question that Friday was a bad day for the tech sector. The SMH semiconductor ETF (SMH) fell 4.5% and the XLK technology ETF dropped by almost 3%....as the earnings reports from the previous two evenings from Oracle (ORCL) and Broadcom (AVGO) disappointed investors. The two-day decline for ORCL after they reported Wednesday night was 15%...and AVGO lost more than 11% the day after they reported.....Neither of these two stocks are in the Magnificent 7, so the MAGS Mag 7 ETF "only" fell by 0.8%, but that ETF was helped by a mild advance by Apple (AAPL) and a nice bounce in Tesla (TSLA). Otherwise, the other five names experienced some considerable weakness on Friday.

The issues raised by the reports out of these two companies has cultivated the growing fears surrounding the profitability of the AI industry that we've been harping on for quite some time now. On top of the concerns dealing with the recurring costs that are going to be incurred by these companies (pretty much forever), ORCL's news raised fears about the amount of debt that will be needed as the AI phenomenon progresses…which caused their CDS prices to push higher once again. AVGO's report raised concerns about margin growth for the industry…and there were some other issues that raised their heads on Friday as well. (There was a story about delays for ORCL's data centers…which were later denied. Also, Fermi's stock dropped almost 50% on Friday on the news that their first tenant had terminated their deal with the company.)

All of this goes back to the issues we have raised about the ROI for the AI industry…and whether it will be as strong or as broad as the stock market has been pricing in for many, many months now……As it has been with the budgetary issues we described above, we have covered these issues in more detail (ad nauseam) in recent weeks. When you combine this with the fact that we're sure you're being inundated with comments on this subject from other sources right now, we'll hold off in repeating the details of our concerns. **However, there is very little question that the narrative surrounding the profitability of the AI industry…both now and in the future…has changed significantly since Halloween.**

Having said all this, the tech sector has not fallen out of bed. In fact, the SMH made a new all-time record high one day last week! Therefore, even though investors are changing how that talk about the AI industry in a material way, they have not changed how they are investing in a major way.
Yes, we HAVE seen some "rotation" here and there…but the tech sector has still held up quite nicely.

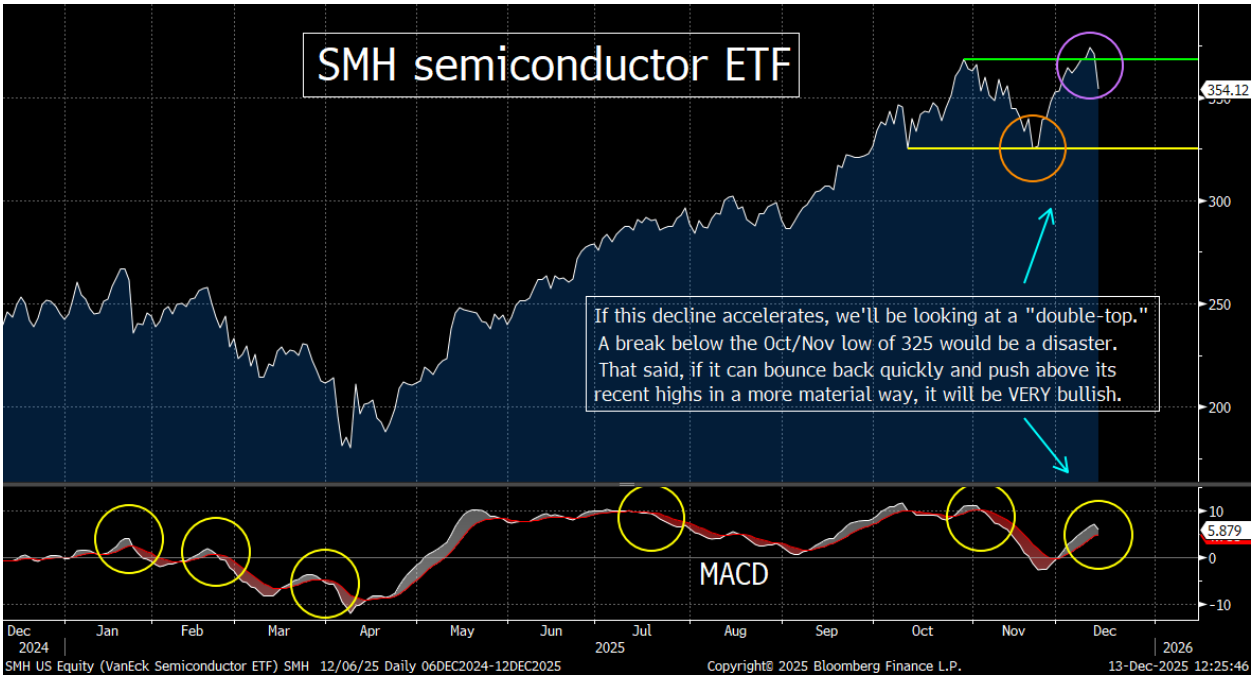
Our concern is that the main reason that these tech stocks are holding up so well is that the institutional investor base is still LOADED TO THE GILLS in these names. Thus, they CANNOT move out of them in a significant way until after the end of the year. They are much too heavily weighted in these names to sell enough of them to make a difference…and they will only ruin their 2025 performance if they do. So, no matter what they'd like

to do over the near-term…they cannot start dumping these names in a wholesale manner.

This does not mean that they'll start dumping them on January 2nd…or in January in general. However, they'll be a little more willing to be at least somewhat aggressive one the calendar turns. (They are definitely long-term investors, but EVERYONE becomes a short-term investor at the end of a year…everyone!) **Thus, we might not get the real response in the stock market to this change in narrative towards the AI industry until we move into the first quarter of next year.**

With all of this in mind, we thought we'd like to review the charts of the SMH and MAGS once again this weekend…**and we'll start with the chart on SMH……**This all-important leadership group broke above its October all-time high mid-week last week, but Friday's advance pulled it back below that line very quickly. It also caused its MACD chart to curl back over.

Therefore, if it falls further next week…and does indeed see a compelling MACD cross, it will not be good. That said, it will take a break below its October/November lows for it to become a significant problem. (Actually, a meaningful break below that level (of 325) would be extremely bearish on a technical basis.).....However, if it can rebound quickly…and push more substantially above that late-October high…it will be very bullish. **Therefore, the battle lines are well drawn for the chip group.**

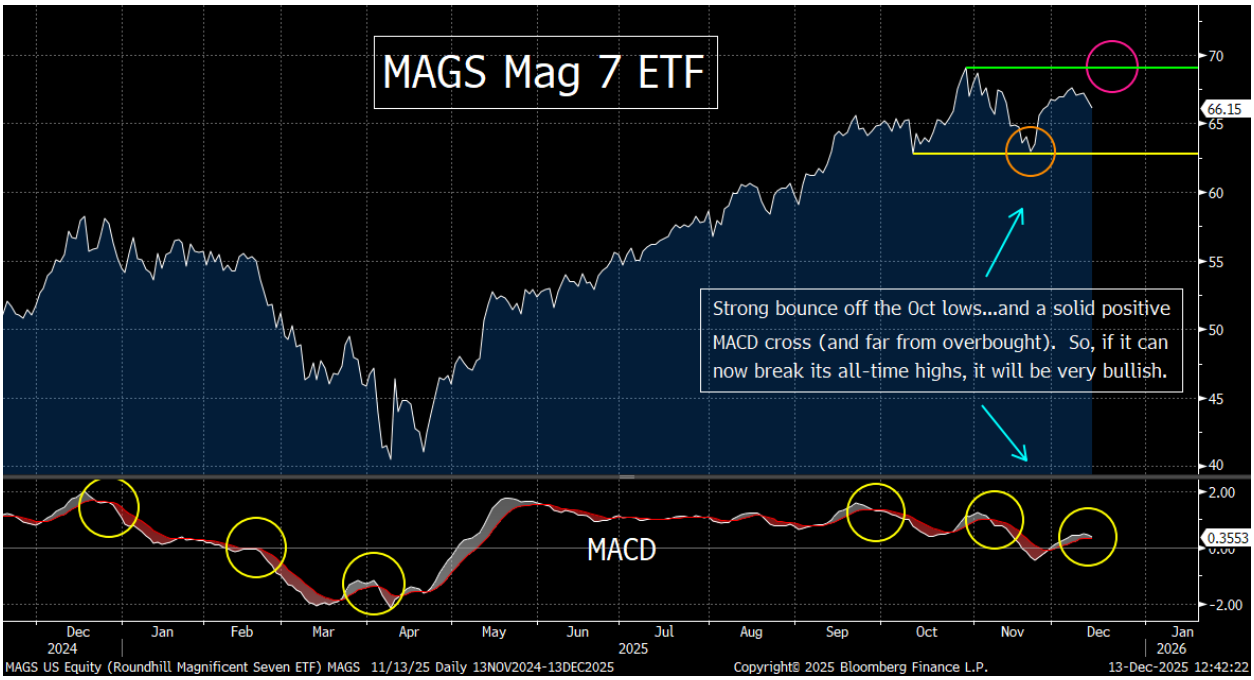


As for the Mag 7 ETF, even though it did not fall as much as the SMH (or the XLK) on Friday, it had been lagging the SMH. Instead of bouncing back enough to make new high, it retraced about 75% of its November drop. Also, it started to rollover at the beginning of the week…while the SMH kept advancing. So, the MAGS looks like it is making "lower-high."……..No, we cannot make that a definitive statement, but its MACD chart is curling over, and it is now very close to a negative cross (much closer than SMH). As you can see from the chart below, if any negative MACD cross becomes a significant one, the decline could/should accelerate rather quickly.

Be that as it may, this is another situation where the group is going to have to continue to drop almost immediately…and it's also going to have to fall below its lows from both October and November to send up a big red warning flag on this key part of the tech sector. That's still 5% below where MAGS closed on Friday, so its not at an immediate risk of an important breakdown. In fact, if it can bounce back quickly…and take out its October high (of $69) in any material way…it will be extremely bullish.

Either way, given how highly weighted these seven stocks are in the SPX and NDX, it's going to be vitally important for investors to watch these ETFs as we move through the rest of December and into the New Year……"Rotation" is a great concept, but it will only work if these mega-

cap names hold up. Thus, they're still the most important stocks in the general stock market as a whole.



---4) Okay, in this point, we want "think out loud" a little bit. In other words, although some of what we're about to say is based on several strong beliefs and/or concerns we have...other comments are merely issues that we're wondering about...and are not sure what the correct answer might be to the questions we raise. However, we do think they are issues that investors should be at least thinking about from time to time over the coming weeks. So, we thought we put some of these thoughts down on paper.

When we watched the above-mentioned interview with Jeff Gundlach last week, we did not get a chance to see it live. Instead, we saw it on tape...so we were able to hear everything that was said.....There was another interview that caught out attention last week as well. We must admit that we did not see the entire interview, so we won't comment on it directly. However, the interview was with an economist whom we (very) greatly respect.

However, she said something that caught our attention. Since we really didn't hear the context which she was using, we cannot react to whether we agreed or disagreed what she was saying, but it still hit a nerve with us. More importantly, it raised two important issues in our minds that we think are worth discussing. (Don't worry, we won't discuss these issues to the very lengthy degree we have in the past…but we DO think it's important to raise them at this time.)

The comment that we heard basically stated that there was no reason for the Fed to risk a recession. Again, we don't know the context that this comment was made, but it caused us to think back to a comment we have made many times in the past…but haven't made recently**. Basically, it is our belief that the Fed's job has nothing to do with avoiding recessions.** They realize that recessions are normal and healthy…**and that are an important part of capitalism**.

In fact, we would argue that if the Fed goes out of its way to ensure that we avoid a recession, they will only make things much worse at some point down the road. Any attempt to keep ALL recessions from taking place will merely create bubbles, which…when they inevitably burst…only pushes the economy into a bigger crisis than if they let nature ("economic nature") takes its course. (This is why we have said in the past that it would be irresponsible for the Fed to engage in emergency measures…every time there is a potential hiccup on the horizon.) Emergency measures ARE needed at certain times, but they could be seen as over-used at other times.

However, we do have to admit that we might be completely wrong about this assumption. **What if things have become SO bad in our system…that even a relatively mild recession will push the financial system over the cliff?** Given the level of total debt in the world today, this thought is not as much of a "reach" as it might seem….**In a very similar vein, this just might mean that we also cannot have a bear market in stocks (or at least one that STAYS in bear market territory) either.**

Let's face it, every time the Fed has tried to "normalize" things in the system since the Great Financial Crisis, something has "broken." When the Fed tightened in 2018…and the stock market fell 20%…the high yield

market started to implode. So, they had to engage in their (now infamous) "Fed pivot."……..After they went through their tightening cycle of 2022 (and the stock market fell 25%), it was followed shortly thereafter by the regional banking crisis in early 2023. The Fed had to pivot once again…and provide liquidity through a QE program (that they claimed was not one)……..**In each case, the stock market bounced back strongly…and everything was honky dory once again.**

Now, we have the new "QE Lite" program. This is not being implemented after a stock market decline…but it has been implemented after some significant stress took place in the short-term funding markets. So, maybe the Fed is once again engaging in something that will keep the stock market rallying and the economy buoyed…because they cannot afford to let them slip for any sustained timeframe…without creating serious problems in the system.

If (repeat, IF) this is indeed the case, it just might be a reason to remain bullish as we move into 2026……The problem with that thinking is that it cannot last forever. At some point, the situation will become untenable…and when some crisis inevitably becomes too big to control, the situation will become a catastrophic one…….**Be that as it may, it's not out of the question to think that the Fed just might need to keep this bull market going…or risk having the entire financial system fall apart.**

Again, this is just an exercise where we're "thinking out loud"…and we'd have to dive much deeper in these issues in order to really come to any real conclusions……..**However, ever since Ben Bernanke made the stock market a "tool"…to directly impact the economy (instead of having the stock market as just a leading indicator for the stock market)…we've been bouncing from mini-crisis to mini-crisis…and the stock market has not been allowed to stay down for very long at all…….Put another way, maybe this means that the stock market will never be allowed to fall into a traditional bear market again.**……Just something to consider.

---5) Updating the charts on the major stock indices…….There is not much change in the charts on the S&P 500 and NDX 100. They both moved

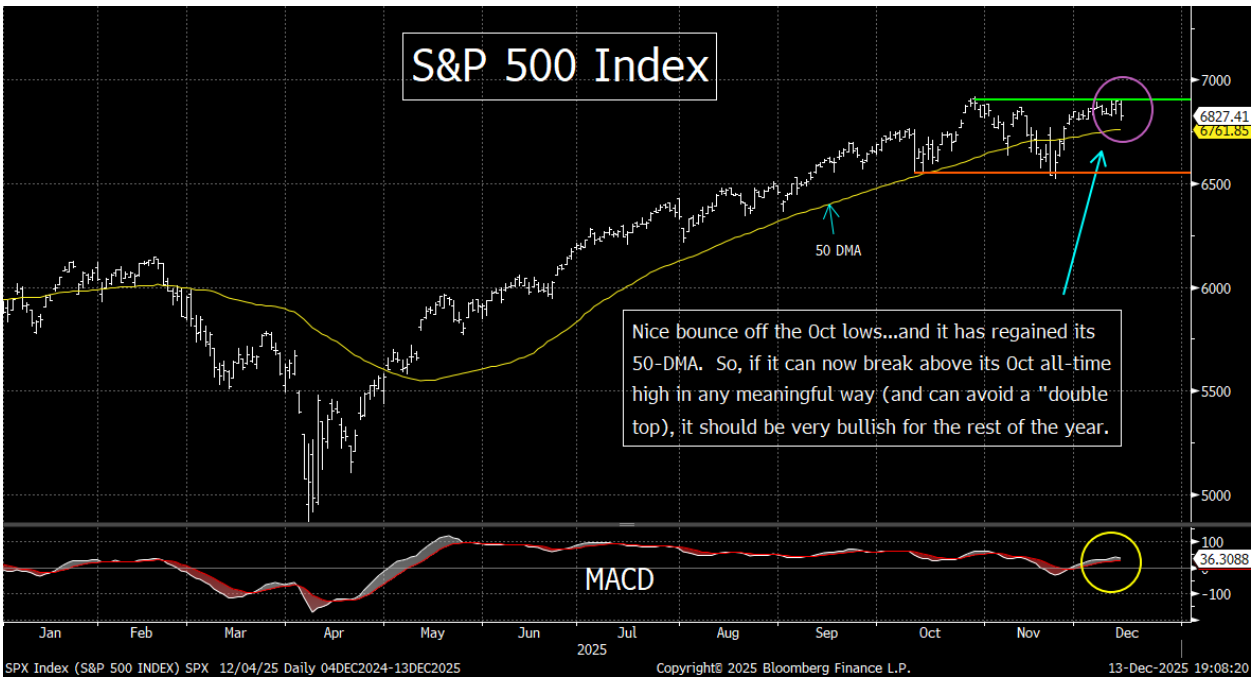
higher early in the week, but the decline on Friday took them into negative territory for the week. This will not present any major problems unless they accelerate lower next week…..Having said this, the small cap Russell 2000 did finish the week higher. So, if it can see any upside follow-through going forward, it should be quite bullish for that part of the market.

The stock market saw a nice rally midweek last week…and that took several indices to new (very slight) all-time highs. However, after Friday's decline the S&P 500 fell back below its key resistance level…and the NDX (which did not make a new high last week) pulled back as well**. Therefore, their charts have not changed much from last weekend.**

They both had already bounced nicely off their October lows in November…both pushed above their 50-DMAs…and both experienced positive MACD crosses. So, we're now still waiting to see if they can break above their old record highs in a significant manner. If they can, it will be very, very bullish.

However, if Friday's decline accelerates substantially, it will create some problems. It could signal that a "double top" has taken place in the SPX…and a "lower-highs" has developed in the NDX. Both would have to drop well below their 50-DMAs to raise any material concerns…and it will take decline below the October/November lows to confirm a change in trend. Therefore, the line of least resistance is still higher right now, but we have to wait until either its key resistance or support levels are broken before we can draw any conclusions about the next meaningful move for these two indices.

As for the Russell 2000, it did make a new weekly record high. So, it's decline on Friday did less technical damage. It's "old resistance" is now "new support," so we'll be watching to make sure it holds that line over the coming days/weeks. However, like it is with the other two indices, it will take a pretty healthy decline to shift the bias towards the bears over the near-term.


S&P 500 Index
7000
6827.41
6761.85
6500
6000
5500
5000
50 DMA
Nice bounce off the Oct lows...and it has regained its 50-DMA. So, if it can now break above its Oct all-time high in any meaningful way (and can avoid a "double top), it should be very bullish for the rest of the year.
100
36.3088
-100
MACD
Jan
Feb
Mar
Apr
May
Jun
Jul
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Nov
Dec
2025
SPX Index (S&P 500 INDEX) SPX 12/04/25 Daily 04DEC2024-13DEC2025
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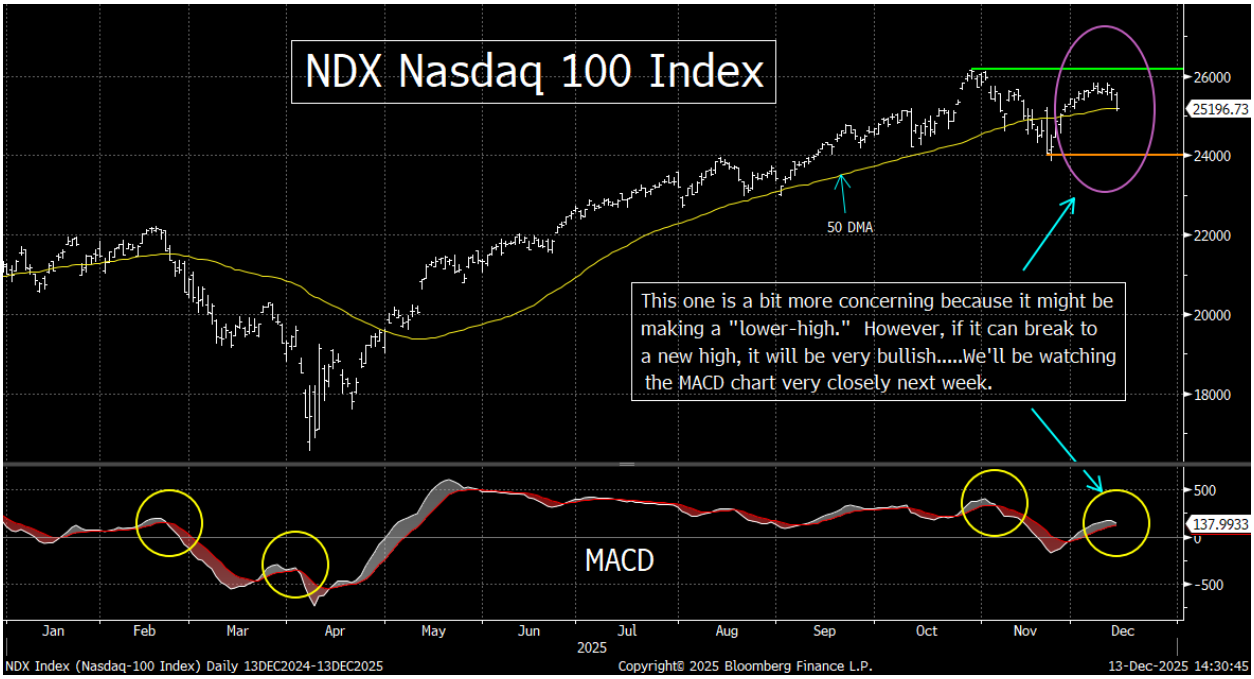
NDX Nasdaq 100 Index
26000
25196.73
24000
22000
20000
18000
50 DMA
This one is a bit more concerning because it might be making a "lower-high." However, if it can break to a new high, it will be very bullish.....We'll be watching the MACD chart very closely next week.
500
137.9933
0
-500
MACD
Jan
Feb
Mar
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May
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Jul
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Sep
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NDX Index (Nasdaq-100 Index) Daily 13DEC2024-13DEC2025
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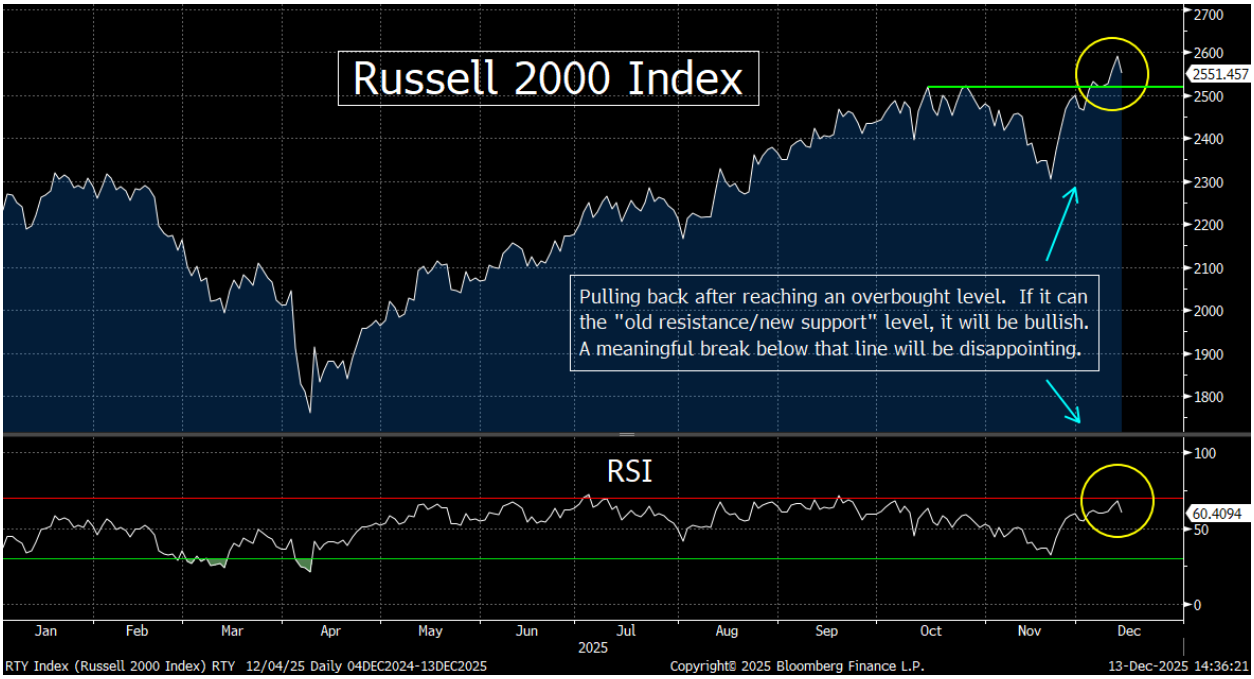


---6) We highlighted the financials stocks last week…and the important ETF's in that sector have indeed broken out to the upside. If they can see any kind of upside follow-through, they could catch fire…given how much investors are looking for alternatives to tech right now (and given how much momentum money that exists today).

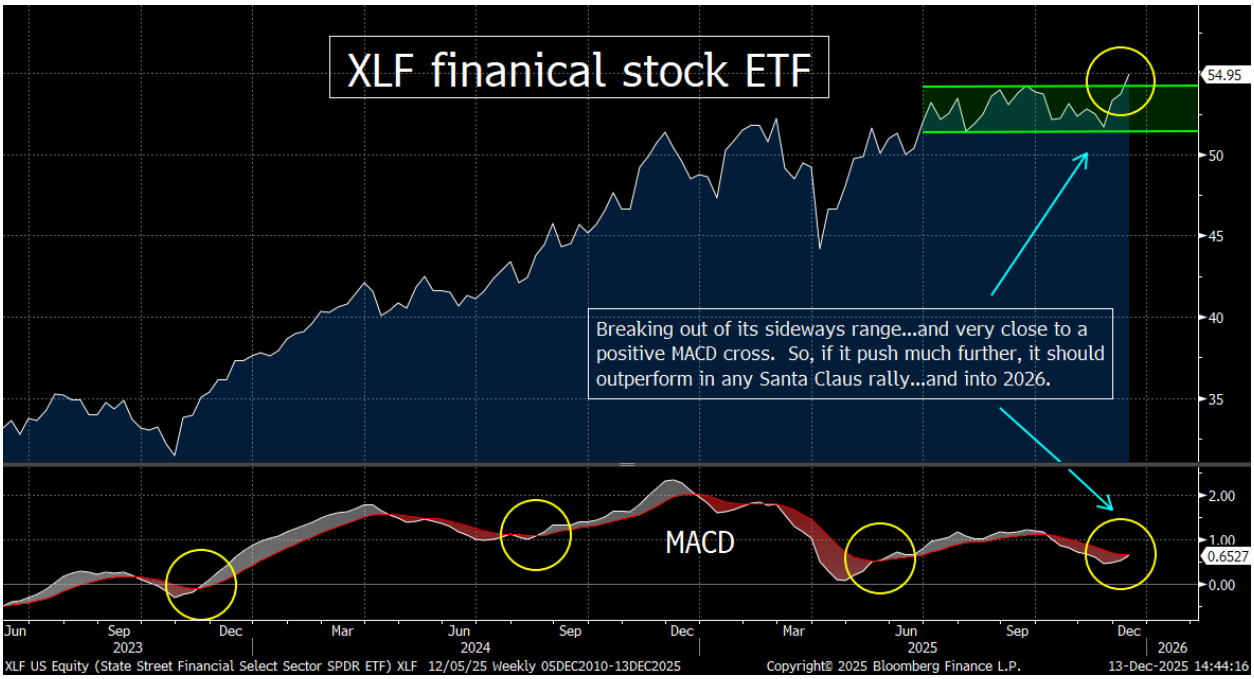
The financials had a very good week last week, so we wanted to update the charts on this sector…..On the fundamental side of things, trading and investment-banking fees have improved this year…and the outlook is for improvement next year with the expected rise in M&A activity and deregulation in the industry look even better next year. The steepening yield curve should help NII's for banks…and the outlook is for the curve remains bullish. As much as the consumer is under stress, they remain resilient.

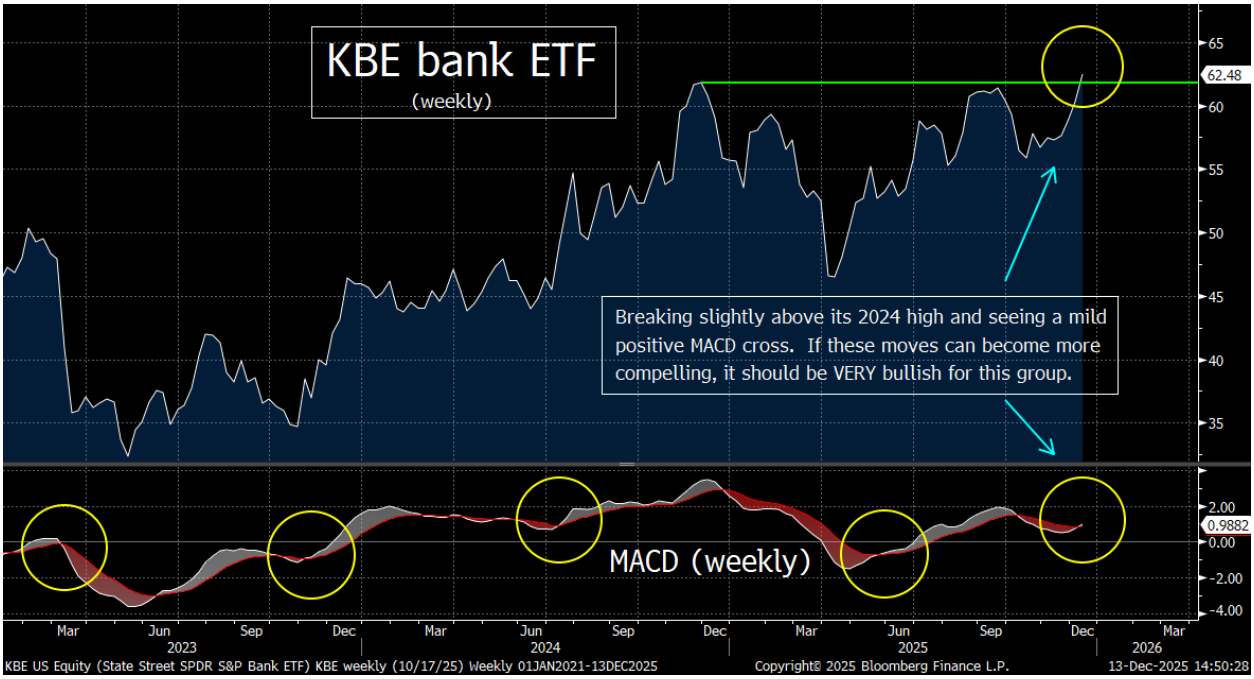
Valuation levels remain attractive…with the large-bank universe trading roughly in the mid-to-single-digit P/E and 1.4 to 1.6 price-to-book territory. This is clearly a materially cheaper multiple than the broad S&P 500 index…which leaves plenty of upside potential…especially if investors look to rotate towards cheaper groups. Dividend yields and buyback capacity and further support to total-return potential for several names……There are

certainly several risks over the intermediate-term…including credit shocks, a drop in long-term yields and any slowdown in growth. However, on a near-term basis, these issues do not seem imminent.

On the technical side of things, the XLF financial stock ETF pushed above the multi-month sideways range in a mild way, so that is quite bullish. The breakout is only a mild one so far, so (as usual) we have to state that it will need to see some more upside follow-through to confirm the breakout. That said, if it pushes much higher, the XLF will also see a positive MACD cross. Since those kinds of positive crosses have been followed by very nice FURTHER rallies over the past several years, it won't take much more upside movement to give us confirmation……The situation if very similar for the KBE bank ETF. It is breaking above its all-time high from Q4 of last year…AND it is seeing a mildly positive MACD as well. So, it won't take much more upside follow-through to confirm the breakout move for this one as well.

Given how important "momentum" has been for the market this year…and how much investors are looking for groups to "rotate" towards right now…the upside potential we have been harping on recently could indeed come to fruition.





---7) We have touched on the industrial sector several times in recent months…highlighting how it has been stuck in a sideways range. Well, the XLI industrial stock ETF broke out of that range last week. So, if it can see some more upside follow-through, it should attract the same kind of momentum-based money that the financial stocks could do in the coming weeks. (That said, the tech sector will need to hold up. "Rotation" will not work if the tech sector gets hit hard.)

After being stuck in a sideways range for many months, the XLI industrial sector ETF is finally trying to breakout……The lull in manufacturing activity through much of 2025 is showing signs of subsiding…as the consensus forecasts for corporate earnings growth into 2026 and a softer interest-rate backdrop should give the cyclical names a chance to catch up with broader market gains. However, loose pockets of weak demand, high inventories in some sub-sectors, and still-elevated capital costs mean the recovery will be uneven across machinery, transport, aerospace & defense, and industrial services.

The consensus is expecting aggregate S&P 500 earnings to accelerate into 2026, **and the industrials group should benefit from that broad**

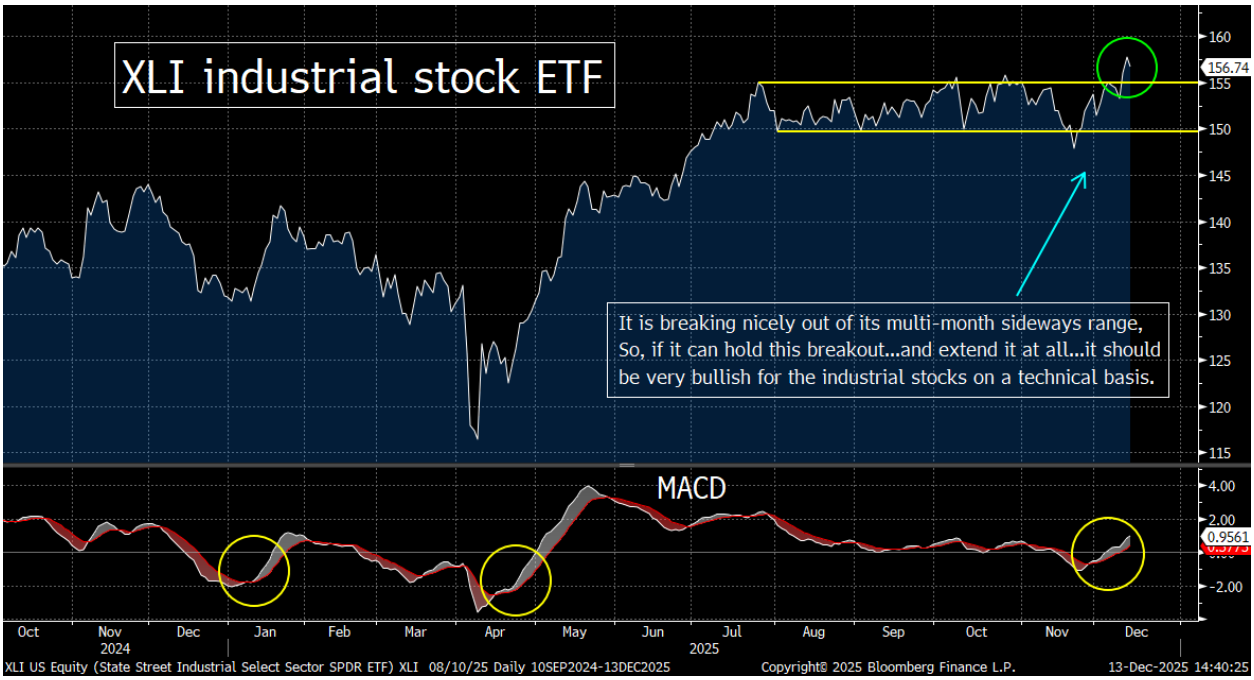
improvement—helped by stronger aerospace order books, defense & infrastructure spending, and pockets of capital-intense demand (data centers, power equipment)……That said, the near-term manufacturing data remain soft, with ISM and other PMI readings below 50 late in 2025, signaling that factories are not yet fully synchronized with street expectations; this implies that 1H26 earnings may still face headwinds even if 2H26 sees better momentum……**Bottom line: modest, above-inflation EPS growth is the base case for industrials in 2026**, but actual outcomes will be lumpy across sub-industries.

We do need to point out that the industrial stocks are trading at materially higher forward multiples than their long-run norms as investors have re-rated cyclicals during the broad 2024–25 equity rally. The S&P 500 Industrials forward P/E sits in the mid-20s (roughly ~25x forward earnings as of early December 2025), above multiyear averages and implying that some degree of earnings delivery (or multiple expansion justification via falling yields) is already priced in……That elevated starting multiple raises the bar: disappointment in order flow or margin pressure would likely trigger more pronounced downside than in sectors trading at lower multiples.

Supportive forces for the industrials include anticipated Fed easing later in the cycle (which would lower discount rates and help cyclicals), **continued fiscal/defense spending in several markets, and selective capex tied to AI, energy transition, and transportation electrification**…..Large-cap industrials with steady cash flow and share buyback flexibility look better positioned than levered, narrowly exposed peers.

Moving back to the charts, the XLI has broken nicely out of its five-month sideways trading range…and it's positive MACD cross is becoming a more significant one. Thus, unless it rolls back over very quickly and very significantly, this sector will be poised for a strong run into the end of the year and beyond. (The top end of its sideways range…of 155…is the "old resistance/new support level. So as long as it remains above that level…and especially if it pushes above its highs from Thursday…the outlook will be quite bright on a technical basis.

Like it is with the financial stocks, any kind of strong breakout move in the XLI will attract A LOT of momentum-based money…..Of course, any "rotation" we get will depend on the tech stocks holding up. They don't have to lead the way higher, but if they decline…the averages will decline…and money will flow out of the markets. However, the breakout move in this sector is looking good right now, so it's one we'll be focusing on the specific names in this group in the days and weeks ahead.



---8) Our Economist, Paul Shea, believes that the Fed is being too complacent about the employment picture. Therefore, he sees them cutting rates in both March and June next year…and he also still sees long-term rates falling in 2025.

In his piece this week, our Economist (Paul Shea) says that the Fed's new policy plans are too highly dependent on the best-case scenario for the economy. He believes that they are too optimistic about the employment outlook…and therefore, the Fed will resume their rate cuts more quickly than they alluded to last week. Although Paul does not see a cut in January, he does see a cut of 25 bps in both March and June. To see Paul's full piece from this week, please click here: The Fed's Pause will be Short-Lived

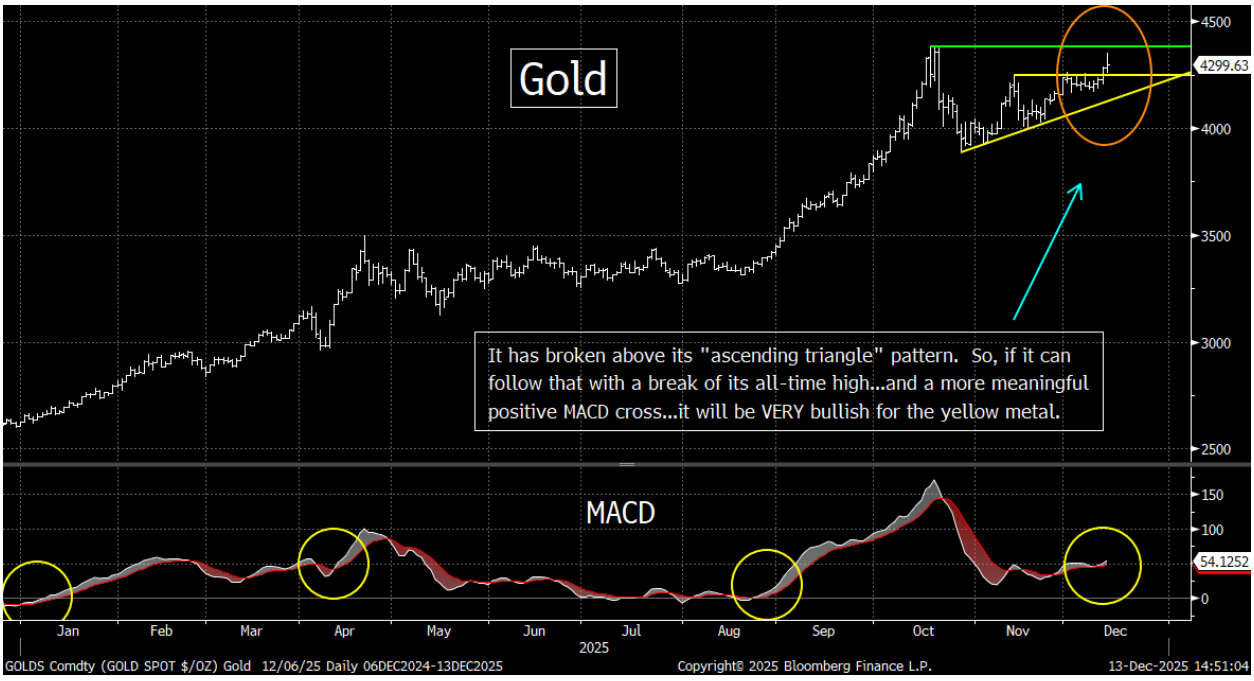
---9) As much as inflation concerns are getting the credit for the rise in gold and silver this year, we believe that the budgetary issues we discussed earlier are the bigger problem. Either way, gold is not far from its all-time high. If history is any guide, a break above that October high will lead to another very strong (multi-month) advance for the yellow metal.

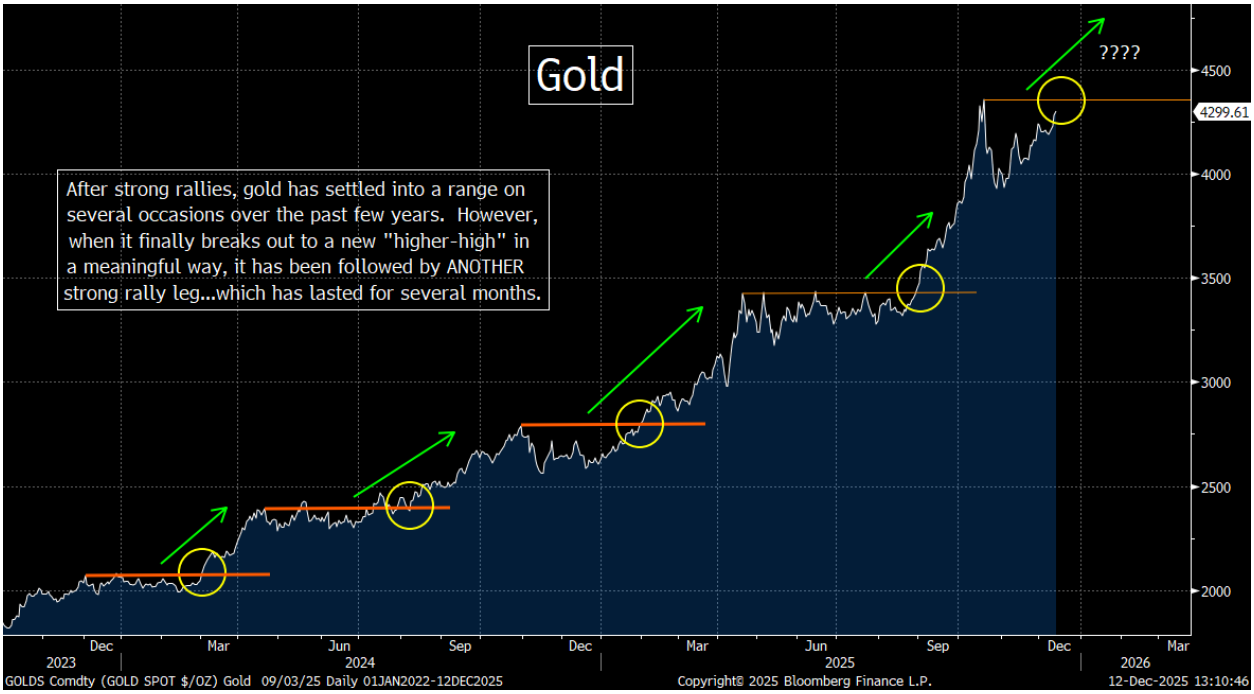
A lot of attention is being paid to the precious metals again, so **want to highlight that it is our belief that these budgetary issues are a key reason why the precious metals have rallied SO strongly this year.** Silver made another new record high this week…and gold moved within 0.6% of it own October record high Friday morning. Yes, concerns about <u>future</u> increases in inflation are getting a lot of the blame, but the <u>current</u> inflation levels are not a problem at all. **Thus, we believe the real reason for the strong rallies in the precious metals surrounds the fear of these budgetary issues.**

No matter the reason, **<u>if gold breaks above its old highs, it should signal another significant rally leg for the yellow metal is upon us.</u>** The trend for gold during this long-term rally has been for it to see breakout moves…which are followed by significant rallies……Let's explain this a little better: After gold has seen a strong rally this year…it has then fallen into a multi-week (and sometimes, a multi-month) sideways consolidation. But after that consolidation, any break to new high has always involved another very strong rally leg. Since we've seen another sideways consolidation recently, the odds are high that another strong rally leg will take place…if (repeat, IF) gold does indeed break to new highs.

As you can see from the chart below, gold has already broken above its shorter-term "ascending triangle" pattern…and is now within ear shot of the October highs. It is also seeing a positive MACD cross. It has seen several mildly positive MACD crosses which turned out to be head fakes in the past. So, we cannot get too excited…too quickly…about this potential. **However, when the MACD crosses DO become meaningful ones, it tends to be a VERY bullish sign. Therefore, if the yellow metal can**

indeed break to a new high soon...that should be enough to give it a more material MACD cross...and THAT would be something investors will not want to ignore!





---10) Potpourri.....We have put together some very quick thoughts on several other issues again this weekend. Some of bullet points have to do with the markets…while others have absolutely nothing to do with them. We hope you find them either interesting, thought provoking, or simply just fun.

---We couldn't believe it when we saw that Time Magazine named the "Architects of AI" as its person of the year. Of course, a lot of people cited the "Cover Story Curse" since that was announced last week, so we realize that we're highlighting something that you've already heard. However, it reminds us SO MUCH of when Jeff Bezos was named Person of the Year at the end of 1999…just before the internet bubble burst.

---By the time you read this, the Army-Navy football game will be over. However, we just want to say that for anybody who is ANY kind of college football fan, seeing the game live at the stadium is bucket list item. There is nothing like it in American sports.....Go Army, Beat Navy! (Our nephew is a West Point graduate.)

---We always chuckle when we hear people say that the Fed is going to have to raise their inflation target to 3%. No, it won't be hard for the Fed to do that, but if we're all going to accept a higher level of inflation, shouldn't we also expect a higher "normal" level of interest rates? (We understand that it's not that simple, but you get what we're trying to say. Simply raising their inflation target WILL have at least SOME implications…which might not be all rosy for the marketplace.)

---How can the economy be booming…but also need much lower interest rates??? We've asked this question before…as have many others…but the answers we all get…are much too easily brushed off. We need more people to ask follow-up questions when they get the usual empty answers to this question.....To be looking for much lower interest rates, one would either have to believe that the economy is about to fall into recession…or that they just want a booming economy and stock market for the mid-terms…not matter what the longer-term repercussions might be.

---We're guessing that Lane Kiffin is not disappointed about what is taking place with Michigan football. (We don't blame Kiffin for how the situation with

LSU played out. It's how the system is set up right now. However, these new developments up north have taken all the focus off him.)

---We must admit that we found the first hour…of the very first episode…of the new Ken Burns documentary, "The American Revolution," rather slow. However, it improved quickly…and the rest of the episodes were fabulous. It's one of his best…and DEFINTELY worth watching.

---11) Summary of our current stance……The "set up" for the stock market as we moved through this week was a very good one. All three of the major stock averages had bounced off their very important support levels at the beginning of the month…and had broken above a couple of key resistance levels…with 3 of the 4 indices reaching new all-time highs on Thursday. All of this came on solid volume and breadth…so the situation looked quite good on Thursday evening. This was particularly true because the yield on the US 10yr note was starting to decline again…and even our old friend, Bitcoin, had held above $90k…after testing $80k late in November.

The situation got a little complicated on Friday, however. This was not a major setback, but since it did involve the two critical "pillars" holding up today's expensive bull market…it is still something that investors will be concerned about if they spill over into the new week. That said, if these two issues can subside, the new record highs that we experienced last week could be exceeded quite nicely before we ring in the new year.

The first issue we're talking about is the growing concerns surrounding the AI industry. Investor fear had already been rising on this subject…due to the realization that there are going to be some significant recuring costs involved in the ongoing development of AI in the years ahead…and that there will have to be a lot more debt incurred to fully develop the new technology. This will make it much harder to argue that margins will improve…earnings will skyrocket…and both will broaden out significantly. More importantly, the developments from this past week took this debate from the theoretical…to the concrete side of things**. With the announcements from Oracle and Broadcom, it is now evident that a lot more debt will indeed be**

needed…that margins might not increase to the degree investors had been hoping…and that the demand assumptions on several fronts of the AI phenomenon might not be on target.

The other issue has to do with global long-term interest rates. Not only have they moved back up toward their highs for the year in many instances (which are the highs for much more than a decade for several of them), but this narrative is FINALLY catching on in the mainstream lexicon on Wall Street.. Thus, it's something that even non-professional investors are starting to focus much more…..**With some real questions being raised on these two "pillars" of the stock market…and moving into the mainstream…it won't take much of a pullback in the stock market for the decline to start feeding on itself (especially after the end of the year).**

Having said all this, we also have the Fed announcement that they are going to engage in "QE Lite"…by buying billions of dollars of T-bills starting immediately. Therefore, even though the announcement and press conference from the Fed left people thinking that there might not be any more rate cuts until Chairman Powell leaves office, this program still means that there should be ample liquidity in the system over the coming months. This is different from the bazooka blasts that were implemented in 2008 and 2020, but they are something that can help buoy the stock market going forward.

It is our belief that the markets are going to need plenty of excess liquidity over the coming months. At 22x forward earnings, the 13% EPS growth that the consensus is looking for in 2026 will not be enough to push the market higher. In fact, it will not be enough to keep it from falling. It will take earnings growth of 35% next year…just to take the P/E ratio down to the low 18's…much less something that is in-line with the historical "fair value" level when no artificial steroids held it up. (Using the average P/E of the past five years as a guide…with two major QE programs…is ridiculous…….Yes, there were two. One for covid…and one for the regional banking crisis.)

With all of this in mind, we believe that although anything can happen between now and the end of the year…and that liquidity factors might be able to hold things up during the very early weeks of 2026, it's going to face some real headwinds at some point in the first half of the

year. Therefore, investors should expect a big rise in volatility…not long after the beginning of the year.

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