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1) Physical gold/digital gold: Regular readers of these Sunday pieces know that this topic is usually the last one about which I write. However, given the necessity of rebalancing of commodity indices such as the Bloomberg Commodity Index, whose rebalancing window this year is running from January 8th to the 15th, this subject matter is paramount. These indices must rebalance their weightings once a year to maintain target allocation levels. Gold's target weight in the Bloomberg Index is being reduced sharply from 20.4% currently to 14.9%, driven by the rule than no single commodity can exceed a 15% cap. The reason that the weighting of gold and silver increased so dramatically is, of course, because of the massive outperformance in 2025. Selling during this window is estimated by several sources to range from $5.6BB of gold to $6.1BB of silver. Once this "passive" selling is absorbed, investors will be keenly observing whether GLD can regain its outperformance mode based on fundamentals. As for digital gold, crypto is not a component of this Index. Bitcoin investors have been disappointed by its recent action for two reasons. One is the continued weakness in the Yen which should enhance the carry trade and the other is the new QE program, begun in mid-December, which should enhance liquidity in the system. Such liquidity has been a true source of crypto purchases in the past.

2) Investors this week have been focused on the potential impact of a Supreme Court ruling on the Trump tariffs. There is no fixed publicly announced date for this ruling, with the Court signaling possible opinion days, not a guaranteed date in January. Consensus is the Court will rule against the Administration. However, there is an opinion circulating that if the Court were indeed to do so, the President will use other powers to quickly reimpose such tariffs. Those laws on the books would include Sections 122 and 301 of the Trade Act of 1974, Section 232 of the Trade Expansion Act of 1962 and Section 338 of the Trade Act of 1930.

3) Relative to the tariffs, Paul Shea (the Miller Tabak Economist) has a view which is clearly not Street consensus. Evidence indicates that the initial tariff-induced inflation is not "spilling over" into other sectors of the economy and that a weakening economic outlook will "eliminate any lingering inflation in 2026." By the end of the year, inflation risks will "mostly be forgotten." He is therefore

maintaining his out-of-consensus view that the 10-year Treasury yield will decline to 3.4% by Christmas, 2026.

4) Relative to the fixed income markets, regular readers of these Sunday pieces know that my most important indicator for equities for reasons stated on numerous occasions has been HYG. This index has kept me bullish from the lows of Liberation Day Week. HYG this week took out the highs from December and the low for the week was noticeably above the previous week's close. The closing price of the Index on Friday was meaningfully above its upward sloping 200 day moving average. It is counter-intuitive that at this stage of the economic cycle and with marquee disasters in the junk market in the last half of 2025 that HYG is acting as well as it is, but one cannot argue with the performance. HYG continues to act as a balm for equity investors' nerves.

5) One must continue to emphasize the implementation in 2026 of the accelerated depreciation component from the Big Beautiful Bill and its impact on capital spending. This is revealing itself in the performance of many industrial names and the related XLI Industrial etf. Moreover, this law certainly encourages front-end loaded capex by the hyperscalers and semiconductor names. Given what has occurred in Venezuela this provision will also aid the oil service companies.

6) Relative to the depreciation provision, one would conclude that the SMH, which many investors including this one believe to be the most important etf, is at the forefront of beneficiaries. Indeed, SMH has had an impressive three-week run, particularly since the New Year. To the chagrin of the bears, the price performance of the SMH remains fodder for the bulls.

7) This writer noted in early December that the Tranpos, after lagging badly for most of the year, began displaying positive relative performance across all of the industry sectors that are components of the Index. The Transpos closed the week at an all-time high giving credence to those who still believe in the importance of the Dow Theory. One can make the argument that the Tranpos are a beneficiary of higher capex as well as being a proxy for the continued weakness in the price of oil.

8) Long suffering small cap investors should be gleeful about the recent performance of the Russell. The index substantially underperformed the other major indices over the past two years. Therefore, its breaks to new all-time highs, about which this writer has been wrong on a relative performance basis, is noteworthy. Investors in this sector are hopeful that the Russell plays a type of catch-up game with the other, more prominent indices.

9) Performance of markets outside the US have also been impressive aiding investor confidence worldwide. Despite a struggling economy for the past two or

three years, the German economy has almost certainly at least stopped shrinking, reflected with the DAX closing at an all-time high. Given the extent of the changes that Takaichi (aka Mrs. Thatcher) is attempting to impose on the entire Japanese system, the performance of the Japanese indices is noteworthy.

Jeff

Have a productive week.

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