



- 1) This writer is commencing this week with the insightful and non-consensus comments stated by the Miller Tabak Economist, Paul Shea, and their potential impact on equity markets. Shea argued following the recent FOMC meeting that the Fed was guilty of “wishful thinking” on the labor market and has been using the U-6 data, which includes underemployment and job openings. This past week has seen an abundance of poor U.S. labor market data. ADP showed a 52,000 decline in employment excluding education and healthcare, two sectors that are insensitive to the business cycle. The January Challenger survey showed higher layoffs in January. Worst of all, the December JOLTS report showed a decline in job openings from 6.9 to 6.5 million. At his last press conference, Chairman Powell stated that there were both some signs of the labor market stabilizing and some signs of continued weakening. As Shea expected, the latter has been born out. These data fit Shea’s pessimistic view that the labor market will weaken further through 2026. The Challenger report was bad, and in his view cannot be dismissed. If these indicators weaken, then a U.S. recession may be at hand.
 - a. Looking ahead to the January BLS report, which has been delayed until Wednesday, Shea is paying more attention to the household survey than the establishment survey. He is especially interested in whether underemployment, which has risen faster in recent months, will continue to worsen. The U-6 unemployment rate (currently 8.4%) is the number on which he will most focus.
 - b. Warsh’s appointment does little to change his outlook. The financial volatility of recent weeks will be a slight headwind for the real economy. Furthermore, the transition from Powell to Warsh in May could induce the Fed to hold steady at Warsh’s first meeting in June. The fundamentals of a weak labor market and falling inflation, however, still point to a Fed Funds rate of 250-275 bps, slightly below neutral. Warsh will have neither the ability nor the inclination from keeping the Fed from getting there by 1Q2027.
 - c. Shea is still expecting the 10 year yield to be at 3.75% by Christmas, clearly a non-consensus view. How equity investors balance a considerably lower 10-

year yield vs a much slower GDP growth is the prominent issue to be resolved.

- 2) Continuing with the theme of the impact of the fixed-income market on equities, HYG remains relatively quiet and in a narrow range. The Index is comfortably above both the upward sloping 50 and 200 day moving averages even after going ex-dividend the first business day of this month as it does every month; many technicians do not make an adjustment in the chart. HYG continues to act as a balm for equity investors' nerves.
- 3) Relative to the SMH, which many investors including this writer believe to be the most important etf in the equity market, there were wild price swings, resulting in an essentially unchanged reading for the week. Fundamentally, the gargantuan increases in capex announced by the hyperscalers should be most beneficial to the components of this etf which was reflected in the 7% jump in SMH following the GOOGL announcement on Wednesday.
- 4) This writer has been noting since early December that the Transpos, after lagging badly for most of 2025, began displaying positive relative performance across all industry sectors that are components of the Index. That relative performance was particularly noted this week, with the Transpos up over 8%. One can certainly make the argument that the Transpos are a significant beneficiary of higher capex due to the newly enacted accelerated depreciation allowance as well as the economy being stronger than most observers have been predicting. The closing all-time highs in both the Transpos and the Industrials meet the criteria of old-school Dow Theorists for continued positive price action.
- 5) Small cap investors had a pleasant week with the Russell notably outperforming the S+P 500. Optimistic investors in this sector of the market believe the recent pullback was due to profit-taking and mean reversion after extended out-performance and are looking for a move to highs above mid to late January.
- 6) It was stated in this piece last Sunday that WTI had risen for 6 straight weeks, suggesting a pullback could be anticipated. While there indeed was a decline in WTI this week, the energy sector stocks continued to outperform with the two most significant etfs in the group—XOP and XLE—rallying smartly. This price action in the stocks vs the decline in WTI is noteworthy for a sector that continues to be under-owned.
- 7) This writer will continue, every Sunday, to harp on the fact that the average intra-year drawdown during the midterm election years is 18%. Therefore, expect a nasty equity correction at some point this year, with the 3rd qtr being favored.

8) Physical gold/digital gold: After a marginal pullback, GLD continued its upward thrust this week. Observers have suggested that the pullback was a result of the data presented by the World Gold Council the previous week that purchases by central banks and sovereign wealth funds had declined approximately 20% in 2025. Bulls will note that Tether is now the largest holder of gold outside of the central banks given the necessity of having gold and/or Treasuries underlying the amount of stablecoins issued and this fundamental demand by issuers of stablecoins will continue. It was nothing short of a disastrous week for crypto investors. The most significant reasoning is that the bears are now claiming that the basic premise for owning bitcoin, its limited ultimate circulation of only 21mm coins, has been compromised by all of the derivative products, swaps and perps invented by Wall Street financial engineers. There is certainly logic to this reasoning. The abrupt halt in the Senate relative to a major cryptocurrency bill the previous week due to the intense lobbying by the CEO of Coinbase certainly exacerbated the lower price momentum. Bulls will focus on the belief that the down element of the 4 year cycle is in its concluding stages.

Jeff

Have a productive week

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