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1) Just after the New Year, this writer scribed that consensus is that the Court will rule against the Administration on tariffs but "there is an opinion circulating that if the Court were to do so, the President will use other powers to quickly reimpose such tariffs." Indeed, the President used Section 122 of the Trade Act of 1974, which supposedly has a 150 day limit. There is also Section 338 of the Trade Act of 1930 which would be an additional tool he could use going forward. Obviously obscure and untested, Section 338 could allow tariffs up to 50% on countries that "discriminate against US commerce."

2) Clearly the market had anticipated this Court ruling, as the S+P 500 (cash) was at 6878 when Trump began his speech and closed at 6909. While implementation of the Trade Act of 1974 will certainly lead to another round of Court challenges over the new invocation as well as having to grapple with how to "return" funds to those impacted by the reversal, Mr. Market has initially discounted any near-term possibility of substantive changes in policy. We did see an outsized jump in some of the retailers most affected by the tariffs right after the conclusion of the speech but the stock prices had settled back by the close.

3) There was also a muted action in both the bond market and the currency market with a de minimis move in the 10 year yield as well as the US$. The yield on the 10 year rose a modest 3 bps on the week. The DXY actually closed the week marginally higher at 97.74 vs 96.88. The lows for this week and the previous week were 97.07 and 96.49 respectively which will be important figures to watch. Note the DXY on Liberation Day closed at 103.81 and the end-of-year figure was 98.28. Most definitely, at the margin, a weaker dollar causes hesitance on the part of EU and UK investors relative to US equities.

4) Speaking of the impact of the fixed income market on equities, this writer wishes to reiterate the view of Paul Shea, the Miller Tabak Economist, that should there be a widening in the 10-2 year Treasury spread as a result of the most recent action of the President, that is "not useful" in forecasting the US economy. The spread has and will continue to reflect a series of the Administration's policies that have elevated term premiums. Moreover, the Fed's switch to a large balance

sheet with ample reserves has "permanently" reduced the yield curve's usefulness.

5) Continuing with the theme of the relationship between bonds and equities, HYG, one of this writer's most important indicators for reasons enumerated on multiple past occasions, remains relatively quiet, above both its upward sloping 50 and 200 day moving averages. The Index was virtually unchanged on the week and there is solid support considerably above the y/t/d lows. A meaningful decline in HYG below its 200 day moving average would be an important cause for concern, but HYG continues to act as a balm for equity investors' nerves.

6) The close in the S+P cash of 6909 places it right above its 50 day moving average. I wrote last Sunday that a vicious tug-of-war was in place between the bulls and the bears around the 50 and 100 day moving averages. Indeed, the bears relished a temporary victory as the S+P (cash) slid almost 50 "handles" below the 100 day moving average only to see the move reversed into Friday's close. Expect this monster tug-of-war to continue this week.

7) At some point this year, history tells us that the bears will win a major victory. As I have written several times recently, the average intra-year drawdown during the midterm elections is 18%. Therefore, expect a nasty equity correction at some point this year, with the statistics pointing heavily to the 3rd quarter which makes sense.

8) 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. The Transpos have now advanced 14% y/t/d and have had 4 weeks of a higher low. This is despite miserable performance this week by CAR, down almost 20% on disappointing guidance. CHRW, which got smashed the previous week on concerns about AI disruptions to its logistics orientation, rallied 8% this week, recouping a fair portion of those losses. FDX has been the marquee star, rallying a shade under 35% y/t/d. The argument can surely be made that the Transpos are a significant beneficiary of higher cap ex due to the enacted accelerated depreciation now in place as well as the economy being stronger than most observers have been predicting.

9) Relative to the SMH, which many investors including this writer believe to be the most important etf in the equity market, there were for the second week in row wild price swings with the etf barely holding above the previous week's low and closing up on the week. Taking out the y/t/d highs in the 417-421 would be extreme fodder for the bulls.

10) Small cap investors continue to relish the outperformance of the RUT vs. the SPX, with the former now up a shade over 7% vs relatively flat performance by the latter. The problem with the large cap names is focused on continued

confusion and skepticism about the ultimate returns of the capex and cross-company returns on investment. This is certainly crystallized this week by the replacement of the long-term $100Bn commitment, but only by an LOI, made by NVDA into OpenAI, reduced to $30Bn for Open AI stock. This retreat serves to highlight the confusion on a spate of agreements about the circular structure of tying together suppliers, customers and investors in the AI sector. As to the small caps, investors seem to believe that the use of AI will boost productivity instead of being involved with building AI.

11) Markets outside the USA continue to display excellent relative and absolute performance. The EEM etf is up 14% y/t/d buoyed by the slow decline in the yield on the US 10 year and expectations, certainly from the Miller Tabak Economist, of further declines as the year progresses. The Nikkei, up 13%, reflects the stunning victory by Takaichi (aka Mrs. Thatcher) and the radical reforms imposed to meaningfully alter what had been a stagnant economy for years. The marginal pullback from the all-time highs seem to indicate digestion of those gains and one should not be surprised by further upside progress if Takaichi has continued success.

12) Physical gold/digital gold: It is difficult to state reasons that there should be a significant pullback in GLD other than a reversion-to-the-mean argument and the fact that some investors were disappointed by the data presented two weeks ago by the World Gold Council of the decline in purchases by the central banks and sovereign wealth funds in 2025. It is hard to see a meaningful correction in GLD given world events, and, more importantly, the unrelenting demand for gold by the issuers of stablecoins who are required to have 1:1 backing by either Treasuries or gold for each stablecoin issued. Secretary Bessent has recently stated that he envisions the stablecoin market to expand from its current $300 BB to $3Tr "soon." Crypto, notably bitcoin, has rallied from the $60,000 level which should be a fundamental low point as that is the cost to miners of minting. Passage of the Clarity Act, caught in a savage battle between the crypto firms and the banks over whether and to what extent interest can be paid, needs to occur before there can be any meaningful upside move in crypto.

Jeff
Have a productive week.

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