1) Putting into perspective the momentous event that has occurred on the world stage over the past 36 hours is a most difficult exercise given what will continue to unfold this week. Initially, one would expect the war premium imbedded in the price of oil will quickly dissipate much to the relief of the Trump Administration which has been touting the dramatic decline in the price of gas at the pump. It is now hard to envision a scenario to reverse this trend. Most surveys that deal with the factors of consumer confidence list the price of gasoline as a top if not the top factor. Furthermore, the defense budget should remain safe given the awesome strength and accuracy that was witnessed from the US military. Historically, Americans have rallied around their President following successful war efforts. Given the swiftness of the positive outcome of this attack as well as the fact that the Administration has stated that this will not be a prolonged war and that no American lives have yet been lost should produce more favorable ratings for the President. Contrarily, Americans have short memories so the impact on the mid-terms is far from conclusive.

2) The only market with any real liquidity since the situation unfolded is the crypto market. Initially, bitcoin plunged to $63,700 but then rallied smartly to a shade above $68,100. As of this writing, bitcoin is trading at $66,600 up about 4% over 24 hours. Clearly, all will be focused on the 6pm (eastern) opening of the S+P futures tonight.

3) This writer has been scribing for the past two Sundays that the vicious tug-of-war between the bulls and the bears around the 50 and 100 day moving averages would continue. We did get a break below both the 50 and 100 day at one juncture this week, scoring a temporary victory for the bears, but the market reversed and closed right in between both averages, leaving this issue unresolved. (One might note with some irony that the S+P cash closed at the exact level it was at when Trump commenced his speech following the Supreme Court ruling on tariffs, suggesting a confused state in the marketplace.) Therefore, expect this tug-of-war to continue this week.
   At some point this year, history tells us that the bears will win a major victory. As I keep noting on Sundays, the average intra-day drawdown during the mid-term elections is 18% . The bulls will harp on what will surely be a bump in the President's ratings, but even Ronald Reagan, after winning 49 states in the 1984

triumphant reelection lost 5 seats in the 1986 midterms. Trump lost 40 seats in the 2018 midterms. As an aside, the Republicans actually gained 2 Seante seats in 2018, increasing their majority. Expect a nasty equity correction at some point this year.

4) Equity bulls will undoubtedly focus on the fact that the 10 year yield closed Friday below 4%, at 3.95%, down approximately 15 bps on the week, an enormous move. Any type of discounted cash flow model on equity valuation will certainly produce a higher number with this yield as the plug. This fall in the 10 year yield is a continued confirmation of the brilliant, yet non-consensus view of the Miller Tabak Economist, Paul Shea, about the direction of the 10 year yield in 2026. He has long been predicting a yield of 3.75% by Christmas. In his report this week (your inbox late Wednesday evening USA/early Thursday morning UK-EU), he maintains his view that the "FOMC remains too concerned about inflation" and he therefore sees the next rate cut not occurring until June.

5) Several clients quizzed Shea on Friday about the higher reported PPI relative to his interest rate forecast. His response was that PPI is far more noisy than CPI, so a single 0.3% m/m core reading "should not have a big effect on the inflation outlook. Markets are wise to shrug it off."

6) Continuing with the theme of the impact of the fixed-income market on equities, HYG, one of this writer's most important indicators for reasons enumerated on multiple past occasions, remains relatively quiet. There was a modest decline this week but the Index remains comfortably above its upward sloping 200 day moving average. Investors might find this counter-intuitive given the current hysertia occurring in the publicly traded private equity firms, but the price action in HYG speaks for itself. Relative to the private equity firms, one should note that the Financial Times has been running hugely negative stories on the group culminating in a full-page article late this past week and Forbes published a lengthy story this week entitled "Dead in the Water…private equity firms are clinging to portfolios of nearly unsaleable investments." This intense negative sentiment could indicate a bottoming for the stocks.

7) This writer has been noting since early December that the Transpos had begun to display positive relative performance across all industry sectors. While the Transpos had a poor week, the Index is still up a shade below 8% y/t/d. One would expect that the removal of the fear of much higher oil prices will be a meaningful fundamental positive for the group going forward.

8) Relative to the SMH, which many investors including this writer believe to be the most important etf in the market, the performance following the earning's report from NVDA was dreadful, declining 5% from that point until week's end. A break below the 397 level would be a significant negative for equities overall.

9) Markets outside the USA continue to display excellent relative and absolute performance. The EEM is up 14% y/t/d buoyed by the decline in the yield on the US 10 year. If Paul Shea's call for further declines in the yield on the 10 year proves to be correct, as it has thus far, expect continued strong performance by EEM. In mature markets, the stellar performance of the Nikkei, which this writer suggested would occur following the stunning initial victory by Takaichi as well as her successful gamble on elections in early February, is not surprising in view of the fundamentals. The Index is now up 16% y/t/d. The yen trading in a range of 152-159 vs. the US$ should serve as an anchor for the Nikkei. The fact that the US$ has been relatively quiet over the past two weeks has also helped these markets. The close in the DXY this week at 97.65 is above the lows in late January of 95.55. The success of the attack on Iran should prove to be a further positive for the US$.

Jeff

Have a productive week.

Jeffrey Tabak

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