



- 1) Regular readers of these Sunday pieces know my most important indicator for equities overall has been HYG. This index kept me steadfastly bullish throughout the incredible run since the low of Liberation Day Week. The reason it has been my most important indicator is that the yield gap between govies and junk remained consistently low throughout this lengthy timeframe, indicating faith in the direction of the economy. The relative low yield offered no true alternative to equities on a discounted cash flow basis using the yields in both junk and governments in one's model. HYG had also been able to shrug off the previous disasters of First Brands and Tricolor Holdings in September of 2025 with only a minor price correction.
 - a. Unfortunately for equity bulls, the deterioration in HYG over the last 2 weeks has been disconcerting for the overall positive equity case. The Index had a high for the year of 81.24 in late January, which almost matched the date of the exact closing high in the S+P 500. HYG only showed only a very minor correction over the following month. However, during the past two weeks, the correction has been meaningful. The Index, closing at 79.20, is now noticeably below what has become a downward sloping 50 day moving average and most significantly fell below its 200 day moving average.
 - b. Given the performance of the HYG, it is not surprising we have seen a meaningful correction in financial equities across the spectrum. Any bounces in this group should not be viewed as buying opportunities unless and until we see a resumption of the uptrend in HYG. A further decline in this Index has negative implications for the relative performance of the financials as well as equities overall.
 - c. The private equity companies have suffered greatly within the financial spectrum for reasons well covered by the media. BX closed almost exactly at the level that Jonathan Gray of Blackstone offered a soothing speech last week on the quality of the portfolio so performance around that price is key for this embattled group.

- 2) Continuing with the theme of the impact of the fixed income market on equities, regular readers of the work of Paul Shea, the Miller Tabak Economist, should not be surprised by the recent employment numbers nor the disappointing GDP figure. Shea, however, is not a believer in the emerging stagflation fears for reasons evinced in his most recent piece entitled "Ignore the Stagflation Concerns" (your inbox late Wednesday USA/early Thursday EU/UK). For him, who has been so accurate in his forecasts, the "real risk remains a demand-driven slowdown like 1990 or 2001, not a repeat of the 1970s." He also believes that the "connection between oil prices and US inflation remains among the most outdated ideas in all of economics." Relative to the employment data, he notes that employment outside of education and healthcare is now down -0.4% y/y. The last time it fell below 1% without a recession was 1952 and it would now be "unprecedented for the US to avoid one." He has "upgraded the chance of a US recession within the next year from 55% to 60%." Equity bulls can take some solace from his view that the yield on the 10 year Treasury will be at 3.75% by Christmas and hit 3.40% sometime in 2027. Such a yield clearly raises the value of equities in a discounted cash flow model although bears would focus on the implications for earnings in the slowdown Shea is anticipating.
- 3) In terms of the S+P 500, one should note that the 50 day moving average has actually turned downward sloping, a true concern. Moreover, while the 200 day is still upward sloping, the close on Friday remains perilously close to that 200 day level. A break below that figure would be red meat for the bears and probably set off an avalanche of sell stops. That figure also corresponds to the low close the week before Thanksgiving. As this writer has kept noting on Sundays, the average drawdown during the mid-term election years is 18%. Even Ronald Reagan, after winning 49 states in the 1984 triumphant reelection, lost 5 House seats in the 1986 midterms and Trump lost 40 seats in 2018. While intuitively one would expect this 18% correction to occur during the 3rd quarter, perhaps it has begun earlier?
- 4) Relative to the SMH, which many investors including this writer believe to be the most important etf in the market, SMH actually advanced marginally on the week and bounced significantly off the Monday low. A break below that figure would lead to intensified selling and be ominous for equities overall.
- 5) As for small cap investors, the beginning of the year euphoria has dissipated as the Russell has now shown 4 weeks in a row of a lower high. The concern about the regional banks is arguably the most important factor in this recent performance although investors in the Russell will certainly note that it has outperformed the S+P 500 y/t/d and is almost exactly flat on the year.
- 6) Physical gold/digital gold: The number one factor is the recent minor correction in GLD is the strength of the US\$. The DXY is now up on the year (100.50 vs. the close of 98.28) and is considerably above the 95.55 low for the year in late

January. GLD bulls will need to see this uptrend in the US\$ either stabilize or reverse. The strength of the US\$ has clearly been a positive factor for digital gold as the pronounced weakness of the Yen has reinstated the carry trade creating meaningful liquidity in the system which is of paramount importance to bitcoin. The Yen closed the year at 156.41, traded as high as 152.33 and has weakened to 159.70 at the end of this week. Whether the BoJ will intervene should the Yen fall below 160 is yet to be seen but the trend of the Yen in March has certainly been a positive factor for bitcoin. Also note that reserve balances at the Fed have risen, another sign of increased liquidity in the system on which bitcoin thrives.

- 7) The performance of the high-end retailers over the last three weeks has been poor, as noted in the price action of WSM and RL. The former has corrected 20% from the mid-February high and the latter 15%. Is this telling us that the upper level consumers are finally becoming disenchanted with their outlook? The price action of AXP would also dovetail with this concern.
- 8) Perhaps we have seen the extreme in the upward thrust in the energy group (XOP up 24% since early February) relative to the downward move in the Tranpos (DJT down 12% since the early February high) ? If not, expect continued triumph for the bear case overall.

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Have a productive week.

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