



- 1) As this writer began last Sunday, the deterioration in “HYG over the last 2 weeks has been disconcerting to the overall positive equity case.” That deterioration continued this week with HYG piercing through the lows of the previous week—the lows of 2026—as well as the closing low of mid-May 2025. The Index is now markedly below its downward sloping 50 day moving average and below the 200 day, which is now just barely upward sloping. As regular readers of “Sunday Comments” know, HYG kept me steadfastly bullish through the incredible run since the lows of Liberation Day week and has been my most important indicator. This deterioration is alarming and must be heeded. The impact has been especially hurtful to the financial stocks across the entire spectrum of that sector. Any bounces in this group should not be viewed as buying opportunities unless and until we see a resumption of the uptrend in HYG. Financial bulls can take some solace from the fact that the private equity stocks—notably APO and BX—closed substantially above the lows of previous week, suggesting this part of the financial sector may have found a bottom, given the pounding they have taken y/t/d.
- 2) Continuing with the theme of the impact of the fixed income market on equities, the increase in the yield of the 10 year government last week and y/t/d is disconcerting for equity bulls. The yield rose 10 bps last week and is now up 21 bps y/t/d. The bps move in the 2 year has been even greater. What is quite disturbing and counter-intuitive is that normally during times of political disruption and international flare-ups, government bonds act as a “flight to safety” asset which have been anything but the case currently. Any type of discounted cash flow model on equity valuation will certainly produce a lower number with this 10 year yield as the plug. Thus, a further rise in the 10 year yield is a substantive negative.
- 3) Contrariwise, the Miller Tabak Economist, Paul Shea, whose forecasts over the last 4 years have been uncannily accurate, published a piece this week entitled “The War in Iran will Eventually be Disinflationary.” (your inbox late Wednesday night USA/early Thursday morning UK-EU) He argues in this piece and the one the previous week that while higher crude oil prices will obviously lead to a sharp

increase in headline inflation, "there will be very little impact on core-inflation." (Please read the report for his reasoning.) Unfortunately, he is considerably more bearish on employment than consensus as he sees unemployment "trending upwards throughout 2026, exceeding 5%, and forcing the FOMC to resume rate cuts." He reiterates his view that, once again, the Fed will do the right thing, "albeit 6-9 months too late." He expects the Fed to cut rates by 25 bps in both 3rd and 4th quarters. The silver lining in his forecast is that he still expects the 10 year yield to fall to 375 basis points by Christmas and reach 340 bps later in 2027. If this prediction were to become reality, it will be most interesting to observe how equity investors juxtapose this yield decline with higher unemployment and lower GDP growth.

- 4) Equity investors must note with alarm that the 100 day moving average on the S+P 500 became downward sloping this week joining the 50 day in such a configuration. Additionally, the Industrials upon which many retail investors focus, has now shown 5 weeks of a lower high. Unfortunately for small cap investors, the Russell 2000 has shown the exact same 5 week pattern. One can argue that the Transpos still remain in an uptrend, but FDX relinquished much of its gain on Friday following a big move up after the strong earnings released on Thursday. DAL does remain noticeably above the lows seen in the initial Iran conflict. Bulls on all of these indices are optimistic after the Trump post immediately after the close on Friday that the US was "getting very close to meeting our objectives and considering widening down our great military efforts in the Middle East." Cynics are suggesting this was somehow leaked given the performance of stocks in the last half-hour of trading but another explanation is that the move related to a gamma flip on the option expiration.
- 5) 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?
- 6) Relative to the SMH, which many investors including this writer believe to be the most important etf in the market, has now shown 3 weeks of a lower high despite continuing positive guidance in the individual components. Bulls will cling to the fact that the 50 day moving average remains upward sloping although the close on Friday was considerably below that figure.
- 7) Physical gold/digital gold: The number one factor in the pronounced correction in GLD has been the strength of the US\$. GLD bulls will note that the DXY actually closed slightly lower on the week at 99.50 and did not make a higher high during the week either. Nevertheless, the DXY remains substantively above the low tick of 95.55 posted during the last week of January. Stabilization in the US\$ or a reversal is necessary for GLD to resume an uptrend. As for digital gold, bitcoin

bulls must be disappointed by the failure of the rally begun mid-month to show any true follow-through. The pronounced weakness in the Yen, falling from 152.33 in late January to 159.22 at the end of this week should have produced a more meaningful upward thrust in digital coins. The weakness in the Yen has reinstated the carry trade creating meaningful liquidity in the system which is of paramount importance to bitcoin. Moreover, crypto is one of the few assets with liquidity over the weekend. It does not portend well that after a noticeable upward move in bitcoin following the Trump announcement after the close of equities on Friday, bitcoin has retraced all of that move at the time of this writing.

Jeff

Have a productive week.

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