



- 1) As this writer has noted over the past several Sundays, the deterioration in my most important indicator, HYG, was disconcerting and portended poorly for the equity markets. Unfortunately for the bull case, this indicator worsened again this week and notably so. HYG registered a low tick y/t/d, and, at one point, traded below the levels of May '25 before rallying slightly. The Index has now displayed 4 weeks in a row of a lower high and is clearly below its 50 and 200 day moving averages, with the 200 day actually turning downward sloping this week. HYG definitively flashed important warning signs earlier this month. The junk credit market needs to stabilize before there can be a resumption of an upward move in equities.
- 2) Continuing with theme of the impact of the fixed income market on equities, the steady rise in the yield on the 10 year creates issues for the bulls using any discounted cash flow model. The yield at the close on Friday showed an increase of 25 bps y/t/d and was even greater at point during the week. Paul Shea, the Miller Tabak Economist, published a note on Friday stating that the biggest threat to yields in the government market is not the rise in oil prices, but rather the elevated uncertainty. Term premiums have now risen by 10 bps, a sure sign that uncertainty is having its impact. Shea states that higher yields will squash any recovery in housing, and, after the initial spike in headline inflation fades, "the Iranian situation will become deflationary." Thus his concern is that the Fed may find itself "even farther behind the curve if it needs to address a continued decline in the labor market," which remains likely.
- 3) Provocatively, Shea is maintaining his long-term forecast for a Fed funds rate of 250-275 bps with a corresponding 10-year Treasury yield of 340 bps. (Shea has been uncannily accurate in his rate forecasts since 2022.) He has, however, extended the timeframe to mid-2027 for rates to arrive at that level. He dismisses Fed President Goolsbee comments this week suggesting the possibility of a rate hike later this year, as Shea's odds of a US recession occurring within a year are now at 66%. The higher odds are based mostly on a markedly worsening of the labor situation.
- 4) Equity investors cannot ignore the fact that the 100 day moving average on the S+P 500 turned downward sloping the week before last, joining the 50 day in

such a configuration. Bears will delight in the fact that the 50 day traded down through the 100 day which technicians will certainly highlight. Further depressing for the bulls is that the S+P has now registered 4 weeks in a row of a lower high and the S+P would need to rally over 275 points this upcoming week simply to rise through the highs set earlier this past week. The Dow Industrials have also had a performance of lower highs which now has extended to 6 weeks. The Russell was able to take out the previous week's high but closed almost 100 points below that level. Of the major averages, only the Transpos this week held above the previous week's close. Fundamentally, and surprisingly, many of the components of that Index appear to be grappling well with the rising costs of energy.

- 5) As this writer keeps noting every Sunday, the average drawdown during the mid-term election years in 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) In technology, of course, the question on everyone's mind is the ruling against META and GOOGL the beginning of what similarly occurred in Big Tobacco? I doubt anyone has the true answer at this stage, but the ruling certainly does not augur well. META declined almost 12% this week and is now down almost 35% from the highs of last August. Also impacting the stock is that Mr. Zuckerberg is certainly not winning any popularity contests and, fundamentally, the once pristine balance sheet is no longer so. GOOGL seems less likely to be impaired given fault to GOOGL was allocated at only 30% of the total and was solely directed at You Tube. My guess is that savvy financial engineering might cause considerably less damage to GOOGL. Nonetheless, the stock is now down over 20% from the highs set early in February. One should note, however, there are always violent bull rallies within a downtrend.
- 7) Relative to the SMH, which many investors believe to still be the most important equity etf, was "only" down 2.5% this week and the bulls are clinging to the fact that the 50 day moving average remains upward sloping, but barely. Note that the close on Friday was considerably below that figure.
- 8) The volatility of the dollar, so meaningful to international investors in the US market, seems to have subsided. The DXY has not risen through the highs of mid-March and seems to have settled within a much more narrow range. Perhaps we have witnessed the lows in the EEM etf which has declined 15% since late February.
- 9) Physical gold/digital gold: GLD had violent intraday moves virtually all of this past week with almost counter-intuitive moves given the events surrounding the Iranian conflict. Certainly a weaker dollar and lower interest rates are in the best

interest of the GLD bulls. As for digital gold, bitcoin bulls are incredibly disappointed by the failure of the rally that began mid-month. Bitcoin is showing itself to be nothing more than another risk-on/risk-off asset, with the price action displaying none of the fundamental principles upon which crypto was built. Moreover, the pronounced weakness in the Yen, falling from 152.33 in late January to slightly above 160 on Friday should have produced a meaningful upward thrust in digital coins. This is because the move in the Yen in theory would lead to the reinstatement of the carry trade creating meaningful liquidity in the system which is of paramount importance to bitcoin. Furthermore, the difficulties in achieving the passage of the Clarity Act in Congress, where the bill remains stalled in Committee, certainly is another negative for crypto. Leaks from Congressmen this week, and the action in marquee names like CRCL, suggest the bank lobbyists have been victorious over those representing crypto on the issue of stablecoin interest payments.

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Have a productive, shortened Holiday week.

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