1) As this writer has noted over the past several Sundays, the deterioration in my most important indicator , HYG, was disconcerting and correctly portended poorly for the equity markets. There was somewhat of a reprieve during the past week. It is always tricky to interpret the HYG during the first week of each month as the etf trades ex dividend on the first business day creating problems with the chart. With such an adjustment, however, HYG closed up on the week and did not penetrate through last week's low, but has still registered 5 weeks in a row of a lower high. It is imperative for the equity bull case that HYG stabilize and halt the pattern of consistently lower highs. It is worth noting secondarily that the Markit CDX North America Investment Grade Index showed some relief this week by a narrowing spread.

2) Continuing with the theme of the impact of the fixed income market on equities, the significant decline on the yield of the 10 year this week certainly improves the equity bull case using any discounted cash flow model. In his piece on Friday, "The Labor Market Is Still on Very Shaky Grounds" published following release of the employment data (your inbox late Friday afternoon USA/early Saturday morning UK-EU) , Paul Shea, the Miller Tabak Economist, has not changed his view of a target for the 10 year yield of 340 bps but has pushed back the date until 3Q2027. The major reason is that the bond market's implied neutral rate has risen from 347 bps to 370 bps, reversing a long-term decline. The Fed has "aided this change" by making its position more hawkish, including some members suggesting the next move could be a hike, which Shea views as highly unlikely. The Fed is therefore set to move more slowly and "again fall behind the curve" holding rates steady until September. The best evidence to him is that the neutral rate should be 290 bps. Without a doubt, Shea's view of where the 10 year will be next Fall is out-of-consensus, as most of his uncannily accurate calls have been since 2022.

3) Equity bears continue to delight in the fact that the 50 and 100 day moving averages on the S+P 500 remain downward sloping and the Index has now registered 5 weeks in a row of a lower high, similar to the HYG. The 200 day, however, is again upward sloping, but just marginally. Of all the major averages, only the Transpos have held up well during the overall downward slump in equities. Fundamentally, and surprisingly, many of the components of

that Index are grappling well with the rising costs of energy by adding either embedded price surcharges or by aggressively doing so. Note the Transpos have risen almost 10% y/t/d.

4) As this writer keeps noting every Sunday, the average drawdown during the mid-term election years is 18%. Even Ronald Reagan, after winning 49 states in his 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?

5) Investors have been laser-focused on the private equity stocks which have led the downward move in the financial sector and many would contend the overall market. From this writer's perspective, it is significant to note that BX has risen smartly from the price (approximately $105.50) that Jonathan Gray, the COO, gave a soothing interview on CNBC explaining the strength of his company's investments and balance sheet and grappled with the gating issue in a productive manner. The stock is still down 25% y/t/d despite management asserting a strong fundamental case. APO has declined approximately the same percentage. Ironically, KKR is down an even greater percentage despite management emphasizing that they are not as vulnerable to certain sectors of private credit as the other two companies are. While OWL has been punished the most by the market, down over 40% y/t/d, the stock bounced sharply off the lows on Friday following and despite more negative fundamental news on redemptions. Observe the equity now yields 10.5% with management essentially claiming the dividend is sacrosanct.

6) Relative to the SMH, which many investors including this one believe to still be the most important equity etf, bulls will take solace in the Tuesday-Thursday rally. Bears, however, will note that the 50 day moving average recently turned downward sloping, having been positively sloped for about a year following the powerful semiconductor run. Expect a significant tug-of-war between the bulls and the bears if this etf approaches 400 this week, as the 50 day is at 399.08.

7) The volatility of the dollar, so meaningful to international investors in the US equity market, has subsided. Since mid-March, the DXY has been priced between 98.88 and 100.64 with that latter figure, registered on Wednesday, being the high for the year. While the Euro comprises 58% of the DXY, the weakness in the Yen, the second largest component of the DXY at 14%, has certainly impacted the pricing of the DXY, as the Yen has fallen from 152.33 at the end of January to a shade below 160. The Euro has been quiet since mid-March, a balm to EU investors in the American market. The relatively quiet DXY led the EEM etf to bounce smartly off its lows and is marginally higher y/t/d.

8) Physical gold/digital gold: The action in GLD has been puzzling to many investors as the moves on certain days have been almost counter-intuitive to events

surrounding the Iranian conflict. One can surmise that the strength of the move this week relates to the noticeable downward move in the yield on the 10 year. As for digital gold, bitcoin bulls are noticeably disappointed that bitcoin has not responded more positively to turmoil in the world which was one of the initial and fundamental premises of cryptocurrency. Bitcoin has shown itself to be nothing more than another risk-on/risk-off asset although it has been relatively quiet over the past month. The weakness of the Yen, as discussed in #7, should have produced a meaningful upward thrust in digital coins. This is because the move in the Yen in theory would lead to the reinstitution of the carry trade creating meaningful liquidity in the system which is of paramount importance to bitcoin. Bitcoin believers are still waiting for such an occurrence.

Jeff

Have a productive week.

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