



- 1) For the first time in about three weeks, my most important indicator for equities, HYG, showed positive performance both relatively and absolutely, which gave positive momentum to stocks. HYG proved to be an excellent advance indicator for the correction we witnessed in equities. The move this week was more coincident but should give investors increasing confidence that the lows of late March early April in equities have significance. HYG was able to penetrate through the high ticks of the previous five weeks of March which in and of itself is impressive. One might have expected a concomitant move in the equities of the much maligned private equity stocks which was not the case and on which the bears will focus. Nonetheless, this sector of the equity market at least held the lows of early March with the exception of OWL which closed at a y/t/d low. To this writer, the most vital name in the group is BX, given the assertion by management that their book is clean. Jonathan Gray, the COO of the company gave a soothing interview on CNBC in mid-March explaining the strength of his company's investments and balance sheet and grappled with the gating issue in a productive manner. Should the price at which that interview occurred (approximately \$105.50) be pierced to the downside, that would suggest major issues for this sector and most likely for the equity market overall.
  
- 2) Continuing with the theme of the impact of the fixed income market on equities, the noticeable decline in the 10-year government yield of 12-13 bps improves the equity bull case using any discounted cash flow model. That yield may be sticky to the downside for the reason, as noted by the Miller Tabak Economist Paul Shea, that the bond market's implied neutral rate has risen from 347 bps to 370 bps since the Iran conflict began, reversing a long-term decline. When conversations began about two weeks ago that the next move by the Fed could be to raise rates, Shea vehemently wrote this was "highly unlikely." In his end-of-month piece, he did lament the fact that the Fed has most likely once again fallen behind the curve and will be too late in responding to the slowing of GDP growth. He has not changed his view of a 10 year yield of 340 bps, but pushed back that date until 3Q2027. Without a doubt, Shea's view of where the 10 year yield will be by the Fall is out-of-consensus, but given the uncanny accuracy of his yield forecasts since 2022, that prediction cannot be dismissed.

- 3) As this writer has noted every Sunday for the best several weeks and will continue to do so, 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 3<sup>rd</sup> quarter, perhaps it has begun earlier?
- 4) All of the major averages have had multiple up days in a row to the delight of the bulls. The S+P (cash) closed Friday a few points above the 100 day moving average, which is, however, downward sloping. Should that level again be pierced to the downside, the bears will certainly essay a further attempt to trade through the 50 day which is also downward sloping and is about 60 points below Friday's close. Of all of the major averages, the Transpos have been the most stellar with this writer having made bullish comments about this Index since the beginning of the year. The Transpos have risen an astounding 17% y/t/d, clearly counter-intuitive to what has happened with the price of fuel. Fundamentally, and surprisingly, the majority of the components of the Transpo Index have grappled well with the rising cost of energy, by adding either embedded price surcharges or by aggressively doing so. Small cap investors should also be satisfied by the clear outperformance of the Russell relative to the S+P, particularly given concerns about the regional bank sector.
- 5) Relative to the SMH, which many investors including this one believe to be the most important equity etf, the action this week was overwhelmingly impressive. The etf exceeded the high ticks registered each of the last several weeks and even the high tick of late February, closing at an all-time high and meaningfully above a now upward sloping 50 day moving average. Equity bears cannot ignore this price action which reflects stellar fundamentals of the Index's largest components. This writer noted last Sunday to expect a tug-of-war between the bulls and the bears at the 400 price level, with the bulls clearly winning that battle.
- 6) The volatility of the dollar, so meaningful to international investors in the US equity market, increased at the tail end of last week, after being relatively quiet. This was most noticeable in the Euro which comprises approximately 58% of the DXY. While the Yen was relatively quiet on the week and has been since mid-March, the Euro rose from 115.22 to 117.29 this week, but closed still below the 120.24 high which occurred on January 28<sup>th</sup>. Perhaps the move in the Euro reflects the increasing distrust between the European capitals and Washington as well as the much publicized rift about NATO. The Nikkei continues to reflect the strong policies of Takaichi (aka Mrs. Thatcher) and is up 11% y/t/d.
- 7) AAPL had an usually volatile week, with a meaningful move to the downside caused by supposed engineering and production problems with the first foldable iPhone dubbed "iPhone Fold," specifically with screen durability under repeated

folds. The stock did recover over 6% from those lows this week to close a shade below a now upward sloping 50 day moving average. Given the importance of AAPL to a plethora of etfs, the price performance needs to be carefully monitored as the bulls will look for a rise above \$263 and the bears will be gunning for the low tick this week and last at the \$245 level.

- 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. Other physical commodity companies had a strong week (SCCO/FCX) with GLD trading in-tandem with them. The bulls will be looking for a meaningful close over 441 in GLD. Certainly a continued decline in the 10 year yield and a fall in the DXY, with which GLD generally has an inverse correlation, would be positive for GLD. As for digital gold, bitcoin bulls are increasingly disappointed that bitcoin has not responded more positively to turmoil in the world, which was one of the initial and fundamental premises of cryptocurrency. Moreover, the weakness in the Yen should have produced a meaningful upward thrust in digital coins because such weakness enhances the reinstatement of the carry trade. There was a burst of enthusiasm this week, leading to a move in bitcoin to the \$73,500 level, when Iran announced it would demand that tolls in Hormuz would have to be paid in crypto, but that faded with the realization that even if such tolls were collected, crypto would be sold for fiat currency.

Jeff

Have a productive week.

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