April 19, 2026 : HYG/10 year/mid-terms/Transpos

1) This writer began last Sunday's piece noting that the first time in three weeks, "my most important indicator for equities, HYG, showed positive performance both relatively and absolutely." HYG certainly proved to be an excellent advance indicator for the correction we witnessed throughout March in equities overall. The move in HYG the last two weeks has been more of a coincident indicator but gave investors increasing confidence that those equity lows were of significance. HYG this week closed above both its 50 day and 200 day moving averages, although the 50 day is still downward sloping and the 200 day is flat. Certainly, one can make the argument that the move in HYG preceded and was an excellent forerunner of the impressive recovery witnessed in one of the most maligned equity groups—private equity/credit. The fact that HYG was signaling a much more positive environment for junk gave investors a belief that the worst had been seen for these companies and equities overall. It also gave credence to the interview that Jonathan Gray, the COO of BX, gave in Mid-March on CNBC explaining the strength of his company's investments and balance sheet and ability to grapple with the gating issue. BX has risen 22% since that speech and APO 26%, boosting confidence in equities overall.

2) Continuing with the theme of the impact of the fixed income market on equities, the continued decline in the yield on the 10-year government bond improves the equity bull case using any discounted cash flow model. The Miller Tabak Economist, Paul Shea, in his piece this week entitled "Higher Inflation Readings Will Be Short-Lived (your inbox early Thursday USA/mid-Thursday UK-EU) continues his theme of continued future declines in that yield. He is maintaining his long-held, non-consensus view that the yield will decline to 3.40% although he has pushed out that date until 3Q2027. The main reason for the later date relates to the higher term premiums resulting from the actions of the Administration. Shea remains "increasingly confident that markets are severely overestimating the risk from inflation." True, there are some signs of a pass-through from higher energy prices to core inflation readings, notably in transportation services; therefore core-readings will come closer to 3% through May. After that, however, "this jump will be mostly offset by a broad disinflation as household budgets reduce demand in other areas." Furthermore, "the weak

labor markets and a too-slow moving FOMC will continue to push inflation down."

1) As this writer has noted every Sunday for the last 3 months and will continue to do so, despite the current euphoria in the equity markets, the average drawdown during the mid-term election years is 18%. Even Ronald Reagan, after winning 49 states in his 1984 triumphant re-election, lost 5 House seats in the 1986 midterms and Trump lost 40 seats in 2018 midterms. Intuitively, one would expect this 18% correction to occur during the 3rd quarter.

2) To the delight of the bulls, almost all of the major averages closed at new highs this week. Both the 50 and 100 day moving averages in the S+P (cash) turned upward sloping to the chagrin of the bears. The Transpos have been much more stellar than the S+P 500 about which this writer has been making bullish comments since the beginning of 2026. The Transpos are now up a shade below 30%, 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 efficiently with the rising cost of energy, by adding either embedded price surcharges of instituting new ones and aggressively doing so. This relates to all the sub-sectors that compose the group. The Index has now seen 5 weeks in a row of a higher low. Small cap investors should be euphoric by the clear outperformance of the Russell relative to the S+P, particularly given concerns about the regional banking sector.

3) Relative to the SMH, which many investors including this one believe to be the most important equity etf, the action for the last 2 weeks has been overwhelmingly impressive. Equity bears cannot ignore this price action, which reflects stellar fundamentals of the Index's largest components. Given the conflicting news investors are receiving almost daily about the Strait, a minor pullback in this etf would surprise no one.

4) The US dollar, as reflected in the DXY, was relatively quiet this week. Granted, the Euro has risen from 115.28 at the beginning of the month to close the week at 117.67 but still below the 120.24 high-for-the-year reading on Jan 28th. The move in the Euro, perhaps, reflects the increasing distrust between the European capitals and Washington as well as the much publicized rift about NATO. The relative calm in the DXY has certainly been quite noticeable in the upward thrust of the EEM etf which has advanced almost 16% m/t/d. The yen, after trading as low as 160.16, has advanced modestly m/t/d closing the week at 158.58. Note the Nikkei closed at an all-time high on Friday reflecting the strong policies of Takaichi (aka Mrs. Thatcher) about which this writer has been commenting since her election. Given the necessity of Japan importing the vast majority of its energy needs, this price action supports how the market views Takaichi. Japan has the second-lowest energy self-sufficiency ratio in the OECD.

5) Physical gold/digital gold: The action in GLD has befuddled many investors, as the moves on certain days have been almost counter-intuitive to the events surrounding the Iranian conflict. A continued decline in the 10 year government yield and fall in the DXY would be beneficial to GLD given its generally inverse correlation to those indicators. Other physical commodity companies had a strong week, with FCX closing at a new high and displaying 4 weeks is a row of a higher low. As for digital gold, bitcoin bulls remain disappointed that bitcoin has not responded more positively to the world turmoil, which is one of the most vital fundamental pieces to the cryptocurrency asset. Moreover, bitcoin bulls are highly frustrated that the weakness in the Yen y/t/d has not produced a meaningful upward movement in digital coins, as such weakness enhances the reinstitution of the carry trade. Furthermore, the significant upward move this past week in HOOD and COIN should have led to better price action in bitcoin.

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Have a productive week

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