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1) The most important indicator that this writer uses for an indication as to the direction of equities is now flashing warning signs. The HYG etf kept me steadfastly bullish through the great run equities had off the bottom in mid-April 2025. HYG also proved to be an excellent advance indicator for the correction in equities witnessed in March 2026. It then became more of a coincident indicator during most of April. HYG has now seen 3 weeks in a row of a lower high and closed below its relatively flat 200 day moving average. Given the lingering and pervasive concerns about private credit, the recent performance of HYG may be telling us that these concerns should be heeded. On the other hand, the earnings report and subsequent call by the APO C-suite suggested a positive outlook and that stock finished the week higher. Likewise, virtually all of the other management teams in this group have been upbeat, even OWL, which has received the most vicious commentary by those who continue to be bearish on this group. This warning sign from HYG is not to suggest investors dump stocks on Monday morning, but rather than this has to be monitored closely. If lingering concerns about private credit are alleviated, this would be a boon for equities overall.

2) Continuing with the theme of the impact of the fixed income market on equities, Paul Shea, the Miller Tabak Economist, published a piece on Friday entitled "The Strangest Labor Market Report in Years." (your inbox late Friday USA/early yesterday UK-EU) Shea states that the two reports by the BLS, the larger establishment survey and the smaller one of households, are telling virtually opposite stories about the health of the labor market. While the establishment survey is showing robust hiring for important sectors, the household survey is showing an average decline of 158,000 jobs from February through April. Additionally, the labor force participation rate fell to 61.8%, the lowest since October ,2021, and the U-6 figure rose from 8.0% to 8.2%. Moreover, the low hire/low fire rate state is showing signs of movement on both fronts, with the growth in hirings thus far being more important than the increase in layoffs. On the investment front, strong cap ex growth may "boost productivity over the next several years while being deflationary." Both effects will "give the Fed license to resume rate cuts in October." Stock valuations using any discounted cash flow models would certainly be aided by a cut.

3) Speaking of investment growth, such use of funds by the hyperscalers will lead to their full-year free cash flow levels being the lowest since 2014, according to the Financial Times. The group has transformed from asset-light cash generation companies into enormous investors in physical infrastructure. The bullish argument is that the whole AI explosion is a unique opportunity to use cash. Also from a bullish perspective, investors are now differentiating among the Mag 7 rather than simply throwing money at the entire group. This discernment is reflected in the performance of the stocks; META will actually burn cash during the 2nd half of 2026 as has been referred to by the bears as a capital intensive "incinerator." Contrariwise, GOOGL will be full-year cash flow positive, although at a relatively low level. The performance of AAPL this week perhaps indicates enthusiasm over the relatively light cap ex numbers by this company. Overall, the bears will argue that the returns on these huge investments will be modest while the bulls will state the opposite, forcefully believing that free cash flow will improve as AI spending finally produces revenue growth.

4) As this writer has noted every Sunday since February 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 the 2018 mid-terms. Doing some additional investigation on this matter on Gemini, a sitting President has lost seats in 18 of the 20 midterm elections since 1946. Clinton actually gained 5 seats in the 1998 midterms during a strong economy and a backlash to impeach him over the Monica Lewinsky scandal. This was the first time since 1934 that an incumbent gained House seats. Note however, that Clinton lost an unprecedented 54 seats in the 1994 midterms and 8 seats in the Senate during what has been referred to as the Republican Revolution (aka Gingrich's Contract with America). The other occurrence where a President actually gained seats in a midterm was in 2002 when George W Bush picked up 8 seats as his approval rating was an unheard of 70% ; he also regained control of the Senate. Once can thus conclude that history is in favor of this 18% correction in a mid-term year. Intuitively one would expect an occurrence during the 3rd quarter.

5) Relative to the SMH, which many investors including this one believe to be the most important etf equity, the performance of the last four weeks has been breathtaking with a rise of a shade under 50% since the end of March. Of course, the bears are screaming "overbought" and "ripe for a pullback." This will inevitably occur , but as this writer has stated for the last 2 weeks, predicting the time of such a correction is "nothing short of a fool's errand."

6) One of the indices that does not get as much attention but upon which this writer has been bullish since the beginning of the year is the Transpos. This Index has outperformed the S+P by almost double y/t/d. This writer missed what now appears to have been an upside blowoff in the group but the Index

has been somewhat distorted by the violent movement in CAR, which has essentially become a meme stock. Since the Transpos are price- weighted the severe changes in this one equity can be overshadowing. Small cap investors have to be delighted over the performance of the Russell which has risen a shade over 15% y/t/d. One might attribute this to a domestic insulation factor.

7) Is the shocking reaction in the stock price of SHAK indicative that a meaningful pullback in spending by the GenZers has commenced and will we see such poor results in other relatively upscale eating establishments and retailers?

8) Trump's visit with Xi this week should provide some provocative moments for investors. Will there be a reaction in the stocks of the CEO accompanying Trump? The CEOs of BA and C are confirmed with the CEOs of NVDA, AAPL, XOM, and MA having been "invited" according to Gemini. Will the Taiwan situation be publicly discussed and what might the reaction be to TSM?

9) Given that Japan imports approximately 87% of its total energy and virtually 100% of its fossil fuel needs, many investors remain befuddled by the fact that the Nikkei continues to make new highs, up almost 25% y/t/d. The most obvious reason for this performance is the market's view of the policy initiatives of Takaichi (aka Mrs. Thatcher) about which this writer has been commenting since her election. While the market was closed this past Monday-Wednesday due to Golden Week, a resumption of the upward move with the Yen once again relatively quiet is a strong possibility.

10) Physical gold/digital gold: GLD resumed a modestly upward trend this week. However, it closed under its downward sloping 50 day moving average, and there appears to be resistance at the 443.5-446 level. As for digital gold, bitcoin bulls are anticipating that the strong move above the $80,000 level which has been holding nicely will lead to a test of the heavy resistance at the 200 day moving average at approximately $83,200. Fundamentally, digital bulls are waiting for passage of the Clarity Act which still seems stuck in Senate Committees.

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Have a productive week.

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