May 17, 2026

1) This writer's most important indicator for the performance of equities remains HYG. Last Sunday, I commenced by stating that the indicator "is now flashing warning signs." Indeed, the price action in HYG earlier in the week was indicating potentially increasing pressure on equities which manifested itself at the end of the week. 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 of this year. The etf has become another profound indicator as we witnessed a series of weekly lower highs and the 200 day moving average turned downward sloping. We have now had 4 weeks in a row of a lower high and the Friday close was decisively below both downward the sloping 50 and 200 day moving averages; the close was also at the low tick for the week. It will be difficult for equities to resume an upward pace until this etf shows at a minimum signs of stabilization.

2) HYG is portending inchoate problems at the below investment grade credits, and, if this were to be realized, would produce nasty results for a broad spectrum of equities. While most of the private equity companies are substantially off the lows following the 2 splashy bankruptcies earlier this year—First Brands and Tricolor--, the stocks remain considerably below their all-time highs. Although APO was up marginally this past week, and is 35% above the March lows, the stock is still 30% the all-time highs around Christmas, 2024. Bulls on this important sector of financial equities will take solace in the comments made this week by Jay Clayton, a former SEC Chairman in the first Trump Administration and the current Manhattan US attorney. At a conference this past Wednesday, in a rhetorical question as to state of the private equity/credit companies, he observed "Is this industry somehow a cancer for the rest of the financial system? No ,in fact it's been great benefit to the US." Clayton continued, "I do not see excess leverage in the private credit world; I just don't see the transmission mechanism for the rest of the US economy." Verbal skirmishes have also occurred on this topic between Senator Elizabeth

Warren and Treasury Secretary Bessent. Concerns on this issue has further engulfed the larger banking industry as evinced by JPM being noticeably below its January high.

3) The substantial increase in the much more pristine government market also raises concerns for equities using any discounted cash flow model. Both the 2 year, now 7bps over 4% and the 30 year, now 12 bps above 5% will be hurdles for equities. Should the 10 year, now at 4.56%, rise above 4.6%, that would create even more problems for equities. Witnessing the same concern internationally, the JGB 10 year is now at its highest level, according to Gemini, since May, 1997, and the 30 year recently touched 4%, the first time since this maturity was introduced in 1999. The reason is Japan's PPI has approached 5% well above the 2% target the BoJ (concomitant with the US Fed.) Similarly, the yield on the 10-year German Bund breached 3.1%, the highest level since May, 2011.

4) Relative to Japan, about which this writer has been commenting positively since the election of Takaichi (aka Mrs. Thatcher), the Nikkei is up 22% y/t/d although it did close the week 4% off its high. The Index has also produced 5 weeks of a higher low. The bulls still wish to trust that her policies will reverse the quagmire from which the Japanese economy has suffered for decades.

5) Clearly there was no uniform reaction to the stocks of the CEOs that joined Trump on his visit with Xi for which equity bulls were hoping. Witness the difference between BA and NVDA. Moreover, the Taiwan situation, which has been simmering for years, has been raised as a substantial area of concern for investors.

6) As this writer has noted every Sunday since February 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 re-election, lost 5 House seats in the 1986 midterms and Trump lost 40 seats in the 2018 mid-terms. In last Sunday's piece, this writer composed in detail all of the mid-terms since 1946. Without repeating the verbiage, a sitting President lost 18 seats of the 20 midterms since post-World War 2. One 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, but perhaps it began late this past week?

7) Relative to SMH, which many investors including this one, believe to be the most important etf equity, the move y/t/d is breathtaking. I have

stated for the last 3 weeks that trying to pick the actual top is "noting short of a fool's errand" which I continue to advocate.

8) This writer noted several weeks ago that some of the mid-level retailers (including restaurants) were beginning to trade poorly. While certainly not predicting the debacle that has been witnessed in SHAK, is that decline indicative that a meaningful pullback has commenced in the spending habits of the GenZers as I asked last week? SHAK closed the week even further below its initial sell-off. We will now see earnings begin in earnest for the mid-level retailers; will they indicate this spending pullback growing? Both WSM, down a shade close to 25% since its February high and RL down 19% since its April highs would are portending poor results. If not confirmed , expect a fierce rally.

9) Physical gold/digital gold: Last week, this writer noted resistance in the GLD at the 443.5-446 range. GLD closed meaningfully below that level as well substantially below a downward sloping 50 day moving average. The uptick in interest rates, with a corresponding rise in the DXY, produced results in GLD that are not surprising. As for digital gold, this writer was incorrect in believing that once the Clarity Act emerged from the Senate Banking Committee, BTC would sail through its 200 day moving average to the upside. However, the "risk-off" environment was simply too much for crypto to absorb. Bulls will continue to argue that the ability of the Clarity Act to emerge from Committee despite the virulent opposition of Senator Warren, who proposed no less than 44 amendments to the bill, ultimately indicates that passage will occur. Greater regulation and "clarity" will be a demonstrative boon for crypto.

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