MILLER TABAK + CO., LLC

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1) This writer's most important indicator for the performance of equities remains HYG. Two Sundays ago, I commenced this piece by stating that the indicator "is now flashing warning signs." This continued during the past week, as HYG has now exhibited 5 weeks of a lower high and is below its downward sloping 200 day moving average. While the majority of the equity averages remain at or near all-time highs, the run has been sector-skewed. The equity bulls will argue that the move over the last two weeks was not especially narrow by equal-weight breadth measures and there was a tech-led broadening within large cap growth rather than a pure Mag 7 run. Furthermore, over the last two weeks, SPY was up 1.09% while the equal-weight RSP rose 1.22%. Nonetheless, HYG proved to be an excellent advance indicator for the correction witnessed in March of this year so the recent price action cannot be simply ignored.

2) Yesterday's headline that Trump has made a "largely negotiated" deal with Iran to reopen the Strait will obviously be a positive should it prove to be true, but investors have been mightily frustrated over the last 2 weeks by a supposed settlement that vanished. It should be noted that the one asset class with true liquidity during a weekend—bitcoin—is up 3.14% since yesterday.

3) Returning to the impact of the fixed income market on equities, note that the private equity/credit firms, while noticeably off their bottoms, remain substantially below their all-time highs. This writer stated last Sunday that the comments by Jay Clayton, former SEC Chairman and the current chief Manhattan US attorney, should be a harbinger of better performance by this key group. To repeat, Clayton stated that "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." This writer was wrong to assume that these comments would rally the group. Instead, APO, for example, closed down 5% on the week and is 32% below the high set Christmas, 2004. If Mr. Market is telling us that noticeable and newsworthy problems are likely for this group during the summer, this would certainly spill-over into equities overall as evinced by what occurred after the First Brands and Tricolor events. A headline in this weekend's Financial Times "JPM looks to offload risks tied to $4BB PE loans" is certainly not a positive harbinger.

4) Equity bulls will find relief as the yield in the 10 year Treasury closed 8 or 9 bps below the high tick set earlier in the week. Certainly , a consistent close in the 10 year over 4.65% will be a constraint on an advance in equities using any discounted cash flow model. The Miller Tabak Economist, Paul Shea, remains almost a lone voice in his belief that we will witness a substantial decline in yields beginning late this summer. Given his stellar track record since 2022, this viewpoint cannot be ignored. More on his analysis when he publishes early this week. The yield on the 10 year JGB rose modestly this week (6bps) while the yield on the 10 year Bund declined noticeably (12 bps). The European Commission slashed its GDP forecast for '26 to 0.9% from 1.4% in '25 and a previous estimate of 1.2%. The forecast for '27 was cut to 1.2% from 1.4% and the inflation forecast was raised to 3% from 1.9%, above the ECB's medium-term target.

5) Speaking of Japan, about which this writer has commenting positively since the election of Takaichi (aka Mrs. Thatcher), the Nikkei is now up 25% y/t/d. This performance has befuddled the bears who thought the Nikkei would collapse over the fact that the country imports approximately 87% of its total energy needs and virtually 100% of its fossil fuel requirements. The policy initiatives of Takaichi are clearly winning over the need and cost of energy.

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 in 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. With history very much in a favor of this 18% correction occurring, intuitively one would expect this move to occur during the 3rd quarter. Perhaps such a move might occur earlier should the situation relative to Taiwan get more heated. This week Beijing announced it is "holding up" a proposed visit by Elbridge Colby, the US Under-Secretary of War, until the Trump administration decides how it will proceed with the new arms package deal with Taiwan.

7) Relative to SMH, which many investors including this one, believe to be the most important etf, the /t/d move continues to be breathtaking. I have stated for the last 4 weeks that trying to pick the actual top is "nothing short of a fool's errand" which I continue to advocate.

8) With the massive debacle in SHAK following the disappointing earnings and guidance, investors were believing that this would begin a further sell-off in the mid-level apparel and restaurant stocks, especially since SHAK continued to fall. This consensus viewpoint was upended by the report from RL as the stock closed the week at $377.78 up from the mid-week low of $317.23. WSM also rallied from a low of $165.51 to a $192.50 close. Given the decline in WMT, we can expect to see uneven yet substantive moves within this group.

9) Physical gold/digital gold: The uptick in interest rates, with a correspondingly firm DXY, has produced results in GLD that should not be a surprise to investors. The sell-off in the miners has been even more intense as witnessed by AEM. While GLD appears to be searching for a bottom, one needs to be convinced we have seen the high in the 10-year yield for this to occur. 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. This forecast was upended by the rise in the 10 year yield, as digital gold now appears to be as captive to interest rates as physical gold. Please see #2 above which is providing solace to the crypto bulls this morning.

Jeff

Enjoy the long weekend and have a productive week.

Jeffrey Tabak

Miller Tabak + Co.,LLC

(212) 348-5101 office

(917) 208-3317 mobile

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