June 14, 2026:

1) Last Sunday, this writer offered a fresh perspective on what I have noted every Sunday since February and that is the historic fact that the average drawdown during the mid-term election years in the US had been 18%. My new view of what is occurring is that instead getting that correction in the overall market, we are rather witnessing that correction group by group or even name by name. Last week I noted the more than 18% correction that has already occurred in the private equity group, the high end retailers, which have since rallied very smartly, and individual names in the marquee industry group--semiconductors and related equipment. Culling through several other groups and individual stocks before composing this piece, it is becoming more of a quantitative fact that this 18% correction is sector related rather than overall market related. Stand-out names from other industries where the correction in this calendar year has approached or exceeded 18% have been ULTA, JPM, HOOD, WMT and the XOP etf. I am reiterating the point that these rolling non-correlated group corrections have indeed masked the S+P or any other major index from showing a real 18% correction. The correction in the S+P from year-end 2025 to the low in March was 8% and in the NDX about 10%. This also explains to this writer why the VIX has remain stubbornly low all year, as the VIX is a measurement strictly of the overall S+P and not industry segmentation. The conclusion from this would have to be that a portfolio manager can keep the overall risk level the same with stock picking and timing of paramount importance.

2) Examining my most important indicator for equities, HYG, the performance this week certainly helped the overall averages. While it is obviously preferable for this index to be a leading indicator, it served as a more coincident indicator this week. The Index barely traded below last week's close and finished the week a shade under the upward sloping 50 day moving average. A convincing break above that figure would certainly be bullish for equities.

3) Speaking of the impact of the fixed income market on equities, it is quite interesting to note that yields in the US took economic reports this week in stride with the 2, 10 and 30 year govvies falling between 4-6 bps each. The fall of almost 10bps in the 10 year from mid-week is also reassuring to equity investors. This is despite the ECB raising rates this week to 2.25%, as expected, the first

G7 central bank to raise rates since the MidEast energy shock. The ECB also raised its inflation outlook for this year and next and cut its growth projections. As for the BOJ, the meeting scheduled for tomorrow and Tuesday has been upended by the sudden hospitalization of Kazuo Udea, the governor of the BoJ. The markets still expect an increase of 25 bps which will raise the rate to 1%, the highest level in 31 years. The Nikkei and the yen weakened slightly on the illness news, with the currency hovering slightly above the crucial 160 level on Friday. Equity investors can therefore take solace in the performance of the US government market and its implication for equities, especially with the Fed meeting this week.

4) The euphoria over the success of the SPCX deal is certainly understandable. However, this writer would like to focus on the net supply of US equities and its implications. For the first time since 2003, new shares hitting the market vs shares removed will be almost flat. Even before the SPCX deal, 60 US companies have gone public this year rising $40BB, the highest y/t/d value since 2021 according to Dealogic. That figure is now estimated to rise to a record of approximately $225BB by year-end given the recent SEC filings. (Let's save for another Sunday the fact that the OpenAI IPO will continue to test the market's willingness to fundamentally accept booming revenue growth combined with huge losses continuing for years.) What is quite noteworthy is that the Mag 7 has lost more than $1TR of value since the SPCX filing last month. The bears will argue on a fundamental basis that is the result of huge capital raises in both the equity and debt markets by these hyper-scalers without any assurance of a meaningful ROI. The other argument is that, at the margin, there is selling in this group to allocate funds to the new IPOs. Mark your calendars, please, for the July 5-8th period, when, under the new NDX "fast-entry" rules (bless the CEO of NDAQ), SPCX can be added to the NDX 15 trading days after its June 12 IPO. The one year of "seasoning" for a public company before listing has been tossed aside. By definition, this will require selling of the other 99 names by the correct capitalization. The bulls will argue that in the long-term this is a small amount, but at-the-margin it is meaningful.

5) Physical gold: Given fundamental factors released by the ECB last week about bullion now accounting for 27% of all bank reserve assets at y/e 2025 up from 20% a year earlier, the performance of GLD y/t/d and since what now appears to be a blow-off top earlier this year has been dreadful, down over 20%. The price action has also been counter-intuitive to the conflict with Iran. The bears argue that inflation will remain higher for longer, growth is accelerating, the US$ is regaining strength and there is certainly a chance of a Fed rate hike rather than a cut. The end-of-the-week bounce in GLD heartened the bulls, but a close above the upsloping 200 day moving average will be necessary to suggest a true trend change.

6) Digital gold: Last Sunday, this writer discussed the implications of the move by Michael Saylor (CEO of MSTR and crypto's biggest corporate cheerleader) to sell 32 bitcoins. Disaster, of course, followed with bitcoin actually undercutting the lows of February. Since then, to the surprise and relief of the crypto bulls, bitcoin has rallied a shade under 10%. Fundamentally, crypto still needs the passage of the Clarity Act or some other additional regulatory bill. Technically, the two upside hurdles are $67,000 which was the price on the eve of the Trump second election, when he promised to make the US the "crypto capital of the world," and then, above that, the 200 day moving average. The bulls are also espousing the view that the sale by Saylor was a "trial balloon"; he was most probably shocked by the violent move to the downside and will avoid such an action in the future.

7) This writer has commented repeatedly on the bifurcated results of the retail sector, including restaurants. Given the strong fundamental performances, RL and WSM have now rallied 27% and 35% off the mid-May lows. This is indeed telling us that the mid and upper level consumers are optimistic and increasing their spending habits. Friday's close in RL was an all-time high. CAVA has also bounced substantively from the mid-May lows which were tested again earlier this month. Contrariwise, SHAK has shown a relatively pitiful bounce off the substantive decline following its earnings and guidance as has GAP. The bears will argue that these latter stock are reflecting a true commencement of a spending pullback by the GenZers over fear of job losses due to AI.

Jeff

Have a productive week.

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