May 31, 2026

1) This writer's most important indicator, HYG, has continued its true value role for the performance of equities , certainly over the last several months. HYG was clearly an excellent advance indicator for the correction witnessed in March of this year about which this writer warned. The price performance this week justifies the majority of the indices hitting fresh peaks although HYG functioning more as a coincident indicator rather than an advanced one. HYG marched through the highs of the last 3 weeks; it twice successfully tested the close of the previous Friday. The 50 day moving average changed once again to be upward sloping and the 200 day is flat. This move in the junk segment of the fixed income market may have reflected the move in the government market as well. Equity investors were certainly relieved by the significant action across the maturity spectrum with the 2 year and the 30 year falling a shade under 4% and 5% respectively, and most importantly, the 10 year trading at 4.44%. Certainly there were moments of deep anxiety for equity investors when the 10 year recently registered a yield of around 4.6% so this significant yield retreat is quite welcomed.

2) Continuing with the impact of the fixed income market on equities, the Miller Tabak Economist, Paul Shea, believes we are seeing or have seen the peak in yields. His most recent piece, "Iran and Gasoline Do Not Explain Terrible Consumer Sentiment", (your inbox late Tuesday USA/early Wednesday UK-EU) cogently makes the case for higher unemployment and lower inflation over the next twelve months. He states that the bond market has been misinterpreting the high inflation readings of the past month; perhaps the significant decline in yields this week confirms his case. "Barring a return of crude oil prices to their February highs, it will take the Fed until October or November (to realize this) for the FOMC to again cut." Shea therefore is one of the few economists writing there will be no hike in the Fall but rather a cut. He still expects the 10-year yield to decline to 340 bps by the Fall of 2027. Given his track record since 2022 (available upon request), his prognosis cannot be dismissed.

3) Investors appear to have become inured with the ever-changing Administration comments on Iran and are instead almost totally focused on the AI infrastructure buildout also believing that there is a Trump put. However, 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. Trump's comment this week that he does "not care about the mid-terms" was provocative, particularly followed by his statement about the TX Republican primary. With history very much in favor of this 18% correction occurring, intuitively one would expect this move to occur in the 3rd quarter. Perhaps this might occur earlier with the inclusion of these upcoming huge capitalizations in the primary indices. Exchanges have been falling all over themselves to ensure these stocks will be included in the marquee indices as quickly as possible. By definition, this would create noticeable selling in the other names to ensure a proper balance. Moreover, perhaps the situation with Taiwan could be a factor in a correction. Earlier this week, the Chinese officially cancelled a scheduled visit by Elbridge Colby, the US Under-Secretary of War, that had been on "hold." The visit was blocked due to concerns about the resolution of the $14BB arms package to Taiwan. This arms sales is now being openly used as some type of diplomatic lever.

4) An event this week which did not receive much press but may have great influence on the financial sector was BIS Project Agora. Essentially, this is a BIS led public-private collaboration testing tokenization of wholesale cross-border payments. Seven central banks are included, one of which is the US Federal Reserve, as well as over 40 private financial institutions. This is not the right forum to go into the details, but the essence is that it allows for instantaneous settlement of tokenized cross-border payments. The initial reaction of the publicly traded stablecoin companies was quite negative , but CRCL traded smartly off its initial decline and HOOD rallied as well. Given all that is occurring with the use of stablecoins within the overall financial ecosystem, this Project is certainly important to monitor.

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

6) US investors have to also be heartened by the performance of equities outside the US, helped by a relatively quiet DXY during May and the recent decline in yields. EEM registered a new closing high and high tick this week. The Nikkei, about which this writer has been commenting positively since the election of Takaichi , is now up over 30% y/t/d despite the country's energy issues. The DAX approached its all-time high this week and did not trade below the previous week's close.

7) The retail stocks have had a radically mixed performance over the last 2 weeks given the earnings report. This writer has discussed the debacle in SHAK as

representative of perhaps a change in spending habits by GenZers. The stock did bounce at week's end but yet to be determined if merely short-covering. WMT closed right at its upward sloping 200 day moving average which may cause technical buying. It will be interesting to observe if RL and WSM, indicative of spending by middle and above consumers, can retain their noteworthy gains following dreadful action in early May.

8) Physical gold/digital gold: GLD bounced nicely off its earlier week's lows as investors became convinced that the interest rate on the 10 year has peaked. The move in GLD has also been counter-intuitive relative to developments in Iran but who can question Mr. Market? GLD also held the important 200 day moving average. The miners, as exemplified by AEM, outperformed the physical as is the usual outcome either up or down. As for digital gold, this writer was wrong in believing that once the Clarity Act emerged from the Senate Banking Committee, BTC would sail through its 200 day moving average. To the chagrin of all crypto investors, BTC actually declined noticeably on the week. This is even more befuddling as BTC should have responded positively by the decline in the 10 year yield.

Jeff

Have a productive week.

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