MILLER TABAK + CO., LLC

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1) This writer's theme that the historic 18% correction which has been the average drawdown during the mid-term Election years in the US is reflecting itself in a different manner. Instead of getting that correction in the overall market, which has occurred in 18 of the past 20 post-World War II mid-term years, we are witnessing that correction group by group or even name by name. This viewpoint is further strengthened by the action in the VIX which has remained subdued for almost the entire year. For the last three months, the VIX has only had 2 closes above 20 and closed the last 2 weeks at 15.79 and 15.81. True, there was a spike over 30 during the single digit market correction in late March but the VIX cascaded down in April. Given that the VIX is a pure mathematical number, it is not influenced by market commentary. If this 18% correction were to occur, one would expect this to be reflected in the VIX certainly with some anticipation of a downside move. We do, however, continue to witness this correction as stated group by group or name by name. Witness the 22% correction we have seen in MU since the late June highs to this Friday's close. Equity bears are maintaining their views that this 18% correction will occur in the 3rd quarter, but thus far Mr. Market, as always, has refused to bow to the consensus model.

2) Regular readers know my most important indicator for equities is HYG, the performance of which over the last two weeks can best be described as neutral to slightly bearish. While HYG was essentially flat on the week, it closed again below both its 50 day and 200 day moving averages which are downward sloping. A break below the 79.42-79.46 area would turn this writer decisively bearish on equities.

3) Continuing with the theme of the impact of the fixed income market on equities, Paul Shea, the Miller Tabak Economist, published a piece this week entitled "The Labor Market, Not Inflation is the Bigger Risk" (your inbox late Wednesday evening US/early Thursday UK/EU). He steadfastly maintains the inflationary readings will "cool off" by the Fall. Shea notes that the FOMC minutes shed light on why the Fed is placing so much weight on inflation, but he disagrees with all three of their conclusions. On the tariffs issue, tariffs were certainly inflationary in early 2026, but for that impact to continue there would have to be even higher

tariffs. Secondly, relative to the conflict in the Middle East and while this week's escalation with Iran does create some inflationary risk, "energy prices are now well below peak , which will soon be deflationary." His third contention with the Fed minutes and the impact on inflation is that AI-driven business investment is inflationary. Shea states this impact is "modest", and down the road will lead to "faster productivity growth which will be deflationary." If Shea is correct in his views, and, given his track record those views cannot be ignored, this would be bullish for equities.

4) Believers in the impact of the carry trade in providing increasing liquidity for a further bull run in equities have to be delighted by the recent weakening of the yen. Since the beginning of May, the currency has weakened from 157.03 to 162.54 with a move this week to as low as 162.70. The BoJ has also been normalizing interest rates at a very measured pace. Investors, of course, remain concerned about BoJ substantive intervention in the currency market which could upset the carry trade. However, such a surprise move seemed to have been quashed late this week by comments by the Finance Minister, Satsuki Katayama, advocating that Japanese pension funds and the public shift more assets into domestic markets. If this was indeed "stealth intervention" as some commented, it would ease pressure on the Yen, but not lead to a wild swing. That is the bullish interpretation of what occurred and would be viewed as a positive for the carry trade. One should also note that the Aussie dollar also strengthened relative to the Yen this week which is viewed as a risk-on barometer.

5) Small cap investors should be delighted by the action in the Russell 2000 which has substantially outperformed the other major indices y/t/d. The last full calendar year that the Russell outperformed the S&P was 2020, when the Russell staged as massive fourth quarter rally. Moreover, Gemini states that a strong US$ (the DXY has closed the last several weeks above 100) is a relative positive for the small caps as these companies generate 80%+ of revenues within the US as opposed to the S+P companies which generate about 40% of their revenues abroad. Additionally, small caps that rely on imported raw materials have lower input costs and higher purchasing power with a strong US$.

6) Physical gold: Despite always positive quarterly reports from the World Gold Council about central bank buying, GLD has performed miserably following its spectacular 1st quarter run. There has now been over a 25% correction from the blow-off top earlier this year. Fundamental investors will note that the main reasons for this performance have been the strong US$ and the move in the 30 year US government yield back above 5%. These factors are outweighing what would be an intuitive view that GLD should be rallying given the unstable conditions in the Middle East. Technically, GLD experienced a death-cross on the 50 day relative to the 200 day moving averages during the week of June 29th. This cross occurred in what Perplexity notes is the worst quarter for GLD in 13 years.

7) Digital gold/stablecoins: The calamity caused by Michael Saylor's (CEO of MSTR) newly designed crypto strategy has surprisingly been shrugged off by the performance of bitcoin, which has rallied a shade over 10% since Saylor's move. Crypto bulls are maintaining that the several-fold test of bitcoin in the $57,700-$60,000 range has eradicated the weak holders and a further rally can be anticipated. Relative to the stablecoin market, it is noteworthy that CRCL received final approval from the US Office of the Comptroller (OCC) to establish a national trust bank charter. The newly formed entity will operate as First National Digital Currency Bank which can provide fiduciary digital asset custody services. This would appear to be a substantive operational and competitive upgrade as it eliminates counterparty risk, for this gives CRCL a direct, secure line to the federal banking system according to Gemini. This also upgrades regulatory and compliance issues, as the company will now be under direct federal oversight by the OCC.

Jeff

Have a productive week.

Jeffrey Tabak

Miller Tabak + Co.,LLC

(212) 348-5101 office

(917) 208-3317 mobile

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