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1) Continuing the theme about which this writer has been espousing for the last several weeks, the historic 18% market correction which is "supposed" to happen in the mid-term Election years in the US is reflecting itself in a different manner. We are instead witnessing vicious corrections group by group and even name by name, allowing the S+P to still show y/t/d gains of around 9% and a decline from the all-time high registered in early June of only a shade over 3%. This viewpoint is reinforced by the action of 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 this week at 18.41. True, there was a spike in the VIX of over 30 during the single digit correction in late March, but the VIX cascaded down in April. Given the VIX is a purely mathematical calculation, it cannot be 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 that downside move. Equity bears still maintain their view that this historic correction will occur in the 3rd quarter as the actual mid-terms approach.

2) As an example of this nasty rotation in one group offset by a rally in another, investors this week witnessed significant losses in the semiconductor sector offset by gains in the financial group. It is most interesting to note that the move in the financials encompassed all sectors within the group, notably money-center banks, insurance and credit cards. The credit card sector, in particular V, appears to have shrugged off the major concerns about stablecoins impacting the basic business model. (This writer was incorrect about this.) Frustrating the bears even further was the performance of JPM, which has historically acted poorly after the earnings report. One can also note that the 6 major banks all beat consensus estimates. An important question relative to this rotation phenomena is whether the semiconductors can experience a real decline while the hyperscalers rally. Up until this week, the hyperscalers had been able to do so.

3) Investors must note that the credit default swap market is now raising some interesting questions. Initially, the alarming rise in CDS pricing was centered around ORCL and the company's enormous debt load relative to declining fundamentals. Please observe that now the MSFT and AMZN credit default

swaps have noticeably risen. Sources indicate that CDS' outstanding on big tech names have climbed to about $12.5BB up $1BB in 2q'26. That pricing rose following the Moonshot AI/Kimi K3 announcement which as Perplexity notes "is a shock to listed AI-exposed tech companies, potentially compressing the long-term economics of their proprietary frontier models." Perhaps the CDS market is telling us the spectacular ROI that the hyperscalers are projecting might not be realized. Over the years, the ability of credit investors to detect trouble has been much earlier than equity investors.

4) Continuing with the theme of the impact of the fixed income market on equities, regular readers know my most important indicator for equities is HYG, the performance of which over the last three weeks can best be described as neutral to bearish. I noted last week that a break below the 79.46-79.42 area would turn this writer decisively bearish on equities. The Index got as low as 79.46 before bouncing. HYG remains below both its downward sloping 50 and 200 day moving averages. Somewhat of a balm for equities would be the yield on the 10 year, which actually declined by 1 bps this week despite the almost $10 increase in WTI. The Miller Tabak Economist, Paul Shea, was one of the few economists on the Street who was correct about the CPI number which certainly explains the performance of the 10 year. A move above the 4.63% level on the 10 year would be a flag of concern for equity investors.

5) As for the major averages, the bulls will note that the low in the S+P this past week did not take out the low from the previous week and are anticipating a rise back above the 50 day which has led to a rally each time that has occurred. The NDX remains of greater concern as the high tick this week was below the previous week's close, never a good sign. The bulls will be looking for the NDX to hold the early June low of 28197 while the bears will focus on the negative MACD cross. Small-cap investors, who are delighted with the noticeable outperformance of the Russell for the first time since 2020, will be focused on the support in the 2910-2927 range. This writer has commented often on the Tranpos which had another strong week across many of the underlying sectors due to fundamentals. It is clearly counter-intuitive that both the Transpos and the XOP (broad-based energy etf) had an up week. One would suspect that this cannot continue.

6) Believers in the impact of the carry trader in providing increased liquidity for a further bull run in equities are focused on the weakening of the Yen. Since the beginning of May, the currency has weakened from 157.03 to 162.35 with a move as low as 162.84. I commented last week on how the BoJ has been muting any sharp moves in the Yen and as long as this continues it will be a positive for the carry trade. Note the overall currency market has been relatively quiet with a move this week in the DXY from 100.97 to 100.76. Equity bulls might also note the positive performance of the Aussie$ relative to the Yen which is perceived as

a risk-on barometer.

7) The dreadful performance of SPCX should reduce exuberance about the IPO market. The high tick in the stock this week failed to exceed last week's close and this is the 4th week in a row with a lower high tick than the previous week.

8) Physical gold: GLD has performed miserably following its spectacular 1st quarter run, with the correction now exceeding 25%. The second quarter was the worst quarter for GLD in 13 years. Despite continued buying by central banks, the reversal in the US$ since the end of January is viewed as the main fundamental culprit for the decline. This writer noted the GLD, technically, experienced a death-cross on the 50 day relative to the 200 day moving averages during the week of June 29th, providing fodder for the bears. Bulls will observe that the low tick this week in GLD held the low for the year registered in late June.

9) Digital gold: I have written extensively about the calamity caused by Michael Saylor's (CEO of MSTR) newly designed crypto strategy. Bitcoin is down approximately 26% y/t/d and Ethereum 38%. Crypto bulls are maintaining that the several-fold test of bitcoin in the $57,700-$60,000 range has eradicated the weak holders. Even the biggest bulls on crypto were clearly surprised by the fact that bitcoin was actually up on the week despite the hammering of many tech stocks given the previous strong correlation. The Holy Grail for crypto advocates would be the passage of the Clarity Act which is stuck in a tight time-boxed negotiation in the Senate with no floor vote scheduled. Passage remains less likely if the bill, which remains stalled in the Senate Banking Committee, is not brought to a vote before the August recess

Jeff

Have a productive week.

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