July 26, 2026

1) This writer noted two Sundays ago that if the HYG, my most important indicator for the direction of equities, were to break below the 79.42-79.46 area, it would be decisively bearish for equities. After bouncing off that level during the week of July 13th, this week, the index sliced through that area to the downside, closing at 79.23, a weak bounce off the low tick of 79.15, The etf is now decisively below both its downward sloping 50 day and 200 day moving averages. Credit people tend to see problems in advance of equity investors; therefore this troubling decline cannot be ignored. It would take a move back above the 50 day to neutralize for equities what has occurred. Regular readers of these Sunday Comments know that this indicator kept me steadfastly bullish off the March lows so one needs to heed this warning.

2) Equity bulls will shrug off this indicator asserting it only reflects problems in the low-grade corporate market. The problem with this argument is what is happening in the CDS (credit default swap) market. Initially, the alarming rise in CDS pricing was centered around ORCL and the company's enormous debt load relative to declining fundamentals. ORCL CDS had another move up this week. More disconcerting is the notable rise in the CDS prices of MSFT and AMZN. Please also observe that the META CDS rose this week which may reflect the fundamental story of that company leasing more and more of its compute capacity. The rise in the CDS of the hyperscalers grew more pronounced followed the Moonshot/AI Kimi K3 announcement which Perplexity noted 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. The conclusion one should reach is that it will be difficult for these stocks to advance until we witness less disturbing pricing in the CDS market. One's investment strategy also has to be influenced by the fact that the NDX has now displayed 4 weeks in a row of a lower high something that has not been witnessed in years.

3) Continuing with the impact of the fixed income market on equities, the move in the 10 year yield this week certainly was of no help to equities. At one point this

week, the yield has jumped almost 16 bps from the previous week's close, a move that negatively impacts any discounted cash flow model for equity valuation. The yield declined by a few bps on Friday to close below the dreaded 4.70% level, but a move back above that percentage would be troubling for equities. The Miller Tabak Economist, who has had one of the best track records on the Street (data available upon request) will certainly state his prediction on this matter following the FOMC meeting mid-week. Given that he runs the economics department of a New England college, he likes to give grades;he awarded Powell a "B-" at the end of his term. In his most recent report, he raised concerns that Warsh may be too gloomy about inflation and we will see if that view has in any manner shifted after Warsh's pronouncements this week.

4) Another concern for equities about which this writer has espoused for months is the historic 18% correction to which the market has succumbed in 18 of the 20 Post World War II mid-term Elections. Thus far, as chronicled by this writer, rather than the 18% overall correction, we have instead witnessed vicious corrections group by group and even name by name. This has allowed the S+P to still show y/t/d gains of a shade over 6% and a decline from the all-time high of only 3%, masking some horrendous moves to the downside. 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 18.58. True, there was a spike in the VIX to 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 intuitively occur in the 3rd quarter as the actual mid-terms become a reality.

5) While the first four bullet points above have a decidedly negative turn, let's now examine some of the positives in the equity realm. First and most importantly is the stellar earnings corporate America is producing. Updated estimates show earnings growth for the S+P of 24% for 2026 with further acceleration in 2027 of 13%, allowing the bulls to justify the overall market multiple. Next on the bullish ledger would be the impact of the carry trade in providing ever-increasing liquidity for a further bull run given the continued steady weakness in the Yen. Since the beginning of May, the currency has weakened from 157.03 to 163.79 with a move this week as low as 163.98. I have commented for the last two weeks on how the BoJ has been verbally muting any sharp moves in the Yen and as long as this continues, it will be a positive for the carry trade. Equity bulls might also note the positive performance of the Aussie$ relative to the Yen which is perceived as a proxy for risk-on. That calculation moved smartly higher this week from 113.62 to 114.37.

6) Additionally on the positive ledger would be the performance of several groups within the market. Virtually every sector of the financial group has performed brilliantly, notably JPM closing at an all-time high and TRV up 17% during the month of July. Even the constantly maligned equity companies have had good performance in July as evinced by BX up 11% with a strong quarterly report. This writer has also often commented positively on the Transpos which traded at an all-time high this week, due to the underlying fundamentals, particularly of the rails. The Transpos did retreat from the high tick on Thursday which is intuitive given the end-of-the-week move in WTI. Big pharma has also been producing positive returns for investors notably given the run in BMY this month.

7) Returning to the bearish side, it should be noted there has been little differentiation recently among the retailers no matter what type of consumer upon which the company focuses. WMT has now declined almost 20% from its all-time high set in mid-May and RL is down over 10% from its late June all-time high. Many investors including this one view WMT as a tech company that happens to sell apparel and groceries.

8) Physical gold: GLD was up very marginally on the week; gold advocates will take solace from the fact that this rise occurred despite a strengthening US$. The DXY closed at 101.49 approaching the high for this year of 101.80. Those who believe in technical analysis will avoid GLD given the ominous death cross which occurred during the week of June 29.

9) Digital gold: I have written extensively on the damage caused by Michael Saylor's disastrous recent crypto strategy and will close that chapter. Crypto bulls are maintaining that the several-fold test of bitcoin in the $57,700-$60,000 range has eradicated the weak holders. The Holy Grail for crypto advocates would be the passage of the Clarity Act which is stuck in a tight time-boxed negotiation on the Senate floor with no vote scheduled. Time is running out for such passage as if is not passed by the August recess, it is unlikely to have a chance after Labor Day. This week prediction markets steadily reduced the probability of passage.

Jeff

Have a productive week.

Jeffrey Tabak

Miller Tabak + Co.,LLC

(212) 348-5101 office

(917) 208-3317 mobile

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