August 02, 2026

1) The last two Sunday pieces have had a distinctly bearish tone to them based on my most important indictor for the direction of equities—HYG. Indeed, the price deterioration in this etf portended problems for equities as credit people tend to be keenly aware of structural issues in advance of equity investors. While equity bulls tried to shrug off this indicator by asserting that it only reflected situations in the low-grade corporate debt market, the problem with that argument was that there was also notable deterioration (rising prices) in the CDS (credit default swap) market beyond the obvious names such as ORCL. Furthermore, Warsh's press conference on Wednesday was viewed as deleterious to the entire spectrum of the bond markets leading to the pronounced sell-off in equities that afternoon. However, the HYG market as well as most of the important CDSs rallied smartly late in the week following the spectacular numbers from MSFT and AMZN, indicating that perhaps the lower-tiered companies in the AI ecosystem might not have the cash flow issues that HYG had been warning about and to which equity prices had responded. At week's end this indicator was off its lows but still remains meaningfully under both its downward sloping 50 and 200 day moving averages. Clearly, a move below this week's lows would cause a renewed avalanche of selling in all equity markets.

2) Continuing with the theme of the impact of the fixed income market on equities, Paul Shea, the Miller Tabak Economist, asserts in his piece this week entitled "The Fed is Rapidly Drifting Off Course" that the lesson that the FOMC should have taken is that the ugly inflation readings in March through May simply reflected energy price swings with "only a small pass through to core-inflation. " Shea was one of the few economists if not the only one who got the June figures correct. Given the latest re-escalation in Iran, this will lead to ugly headline inflation readings for July and August, with much more "modest" boost to core inflation numbers. Shea believes that even the headline readings will reverse after crude prices stabilize without the necessity of FOMC action. As an example of his focus, Core-CPI ex-shelter was just 2.0% y/y through June, and when using Zillow's housing price index instead of the BLS's "flawed measures," core - CPI is just 1.4%. However, because the Fed seems "ill-prepared" to look through energy prices, he has extended his expectations for the Fed to shift back to a dovish stance until 2Q2027. He has also extended his expectations for the

yield on the 10 year to decline to 3.5%, by far the lowest yield number on the Street, to 2Q 2028. Nonetheless, on more immediate term basis, any move in the 10 year and the 30 year above last week's high yields will be difficult for equities to grapple with.

3) Investors were obviously thrilled with the numbers produced by MSFT and AMZN late in the week. The earnings certainly defied the recent gloomy mood for all companies linked to AI. That concern was perhaps most pronounced in the drop in GOOGL's share price after its free cash flow was revealed to be negative in the 2nd quarter for the first time since going public more than 20 years ago. While MSFT's capital spending ate into cash flow, the $19.6BB free cash flow reported exceeded the Street's estimate of $13.4BB. Moreover, both MSFT and AMZN exhibited accelerating cloud growth as well as concrete proof that the massive AI infrastructure spending was fulfilling massive demand and producing more immediate revenues than previously estimated. There is now a clear division among the Mag 7 with AMZN, GOOGL and MSFT in one group, AAPL in another given its distinct business model relative to the other three, and META also in a category by itself given Zuckerberg's firing in multiple directions with little to show for it. As for NVDA, the bears will argue that there are intensifying concerns about circular financing as the semiconductor maker underwrites more of the market for its chips. The most vicious bears will assert that NVDA is engaged in nothing more than old-fashioned department store type vendor financing in which NVDA is essentially writing checks to enable its customers to buy more of its products that they could otherwise afford. The bull case is that companies like OpenAI would struggle to raise sufficient equity or debt quickly enough to build computing power at the scale they need. Thus, if the entire AI phenomenon is successful, NVDA gets a double whammy to the upside, profiting from both chip sales and equity investments. As for TSLA, the movement of the stock will clearly be determined by rumors/news about a merger into SPCX.

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 intense corrections group by group and even name by name and will continue to do so. As an example,if one owned RDDT or RBLX one clearly felt the impact of an 18% correction in those names late this week. My viewpoint is mathematically confirmed 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 this week at 15.93 despite what was perceived as intense volatility. 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. The bears will counter my argument by stating that this historic correction will intuitively occur in this quarter as the actual mid-terms become a reality.

5) This writer has been incorrectly positive on the private equity publicly-held stocks. That negativity may finally be reversing itself given the smart performance of BX following the earnings as well as the price action in the black-sheep of the group, OWL. APO reports on Tuesday ; the move in the stock on Friday suggests the numbers will be good which may finally end all the bearish talk on this group.

6) As for the energy group, it is noteworthy that the US government is continuing to release oil from its SPR, which saw a drawdown of 3.8mm barrels to 307.7mm barrels which is the lowest level in more than 40 years. Its operational minimum, below which further withdrawals risk damaging infrastructure and disrupting pipeline operations, is estimated to be between 180mm and 200 mm barrels. Investors need to watch drawdowns as the absence of a big buffer from the SPR makes the US vulnerable to future supply shocks.

7) Physical gold: GLD investors were hit by the unexpected news on Friday that central banks had cut their gold purchases in early 2026 to the lowest level in 15 years. A significant data revision by the World Gold Counsel slashed the estimated level of central bank purchases by an astounding figure—from 244 tons to only 57 tons. For those who espouse technical analysis, the death cross that occurred during the week of June 29th is a meaningful negative.

8) Digital gold: Bitcoin/Ethereum believers were quite disappointed that the Clarity Act failed to emerge from the Senate Banking Committee and is now essentially dead as of Friday. Bitcoin bulls will state that the muted reaction in crypto currencies this weekend is a near-term positive. Moreover, the stablecoin stocks such as CRCL closed meaningfully above the Friday lows. What is most interesting, however, from this writer's perspective is how the crypto PACs, virtually the best-funded of all the PAC groups in the USA, will react in terms of funds to support candidates given the anger erupting by these PACs from the inability of the Senate to get a floor vote on the bill. Crypto bears are relishing the fact that a recently released ransom note relative to Nancy Guthrie's kidnapping demanded payment in bitcoin as opposed to US$. This gives some credence to the argument that crypto is still the asset of choice for drug dealers and criminals.

   Jeff

   Have a productive week.

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