MILLER TABAK + CO., LLC

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1) Congrats to the Miller Tabak Economist, Paul Shea, to be one of the few Economists, if not the only one on the Street, to get the surprisingly poor jobs data reported on Friday correct. He has been writing regularly that the labor market was weakening with a report entitled early in July "The Labor Market, Not Inflation, is the Bigger Risk." Moreover, in a report later in July, he wrote that the Conference Board data may "signal a July jobs report that is weaker than expected." Following the release of the employment data, Shea published a report entitled "Blame the Fed for the Awful Jobs Report" (your inbox late Friday US/early Saturday UK-EU). He argues that two clear trends concerning jobs should worry the markets and the Fed "far more than inflation." Those are falling labor participation from the household survey and stagnant hiring from the separate firm survey with the decline in the unemployment rate being "irrelevant." The big story from the household survey is that workers have responded to reduced hiring by leaving the labor force altogether instead of being classified as unemployed. Labor force participation fell to 61.4%, the lowest since February 2021. He concludes that these workers will re-enter the labor force in coming months, which will then "quickly pass through to higher unemployment."

2) Shea is also critical of Warsh's view on inflation. While he does not blame the Fed for the initial spike in yields following the outbreak of the war in Iran, Shea states that Warsh has "failed to look through an energy price spike and instead chose to talk up yields, especially since the June meeting." The awful July employment report is a "consequence that could have been avoided." He asserts that it is "unfortunate" that it will take the FOMC until 2027 to "be convinced" that a further decline in employment is a "far bigger risk" than persistent inflation. Moreover, under Warsh, the bond market's implied neutral rate has risen from 350 bps in March to 392 bps today, which the Fed has done "everything in its power to amplify." Furthermore, since Warsh's first press conference in June, term premiums have risen by 22 bps.

3) On a more positive note for equities, and contrary to the views of most of his competition, Shea notes that "inflation is going to come down regardless of what the Fed does over the next year." His reasoning is contained in his most recent reports but the point is that "underlying core measures that ignore shelter or fix

the BLS's poor measures are already close to the Fed's 2% target." He does not expect the Fed to declare "victory" on inflation until the 2Q2027 when the Fed "will next cut rates." By mid-2028, Shea believes that through a series of rate cuts, the Fed funds rate will be lowered to 275-300 with the 10 year yield falling to 3.50%. Given his track record since 2022, (available upon request), this prediction cannot be ignored and would be a positive for equities on any discounted cash flow model.

4) Continuing with the theme of the impact of the fixed income market on equities, HYG gave a clear warning of the troubles that equities saw during the last week of July. Regular readers know that this write views HYG as the most important indicator for equities for reasons explained in many previous Sunday pieces. HYG goes ex-dividend the first week of every month making the price action this week somewhat difficult to interpret, but let us say that the indicator is now in neutral territory. The 50 day and 200 day moving averages remain downward sloping but the close on Friday at $79.61 was significantly above the lows for the week. A move above the 50 day at $79.70 will clearly be a positive for equities.

5) A significant concern for equities about which this writer has discussed 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, I believe, this will continue to be so. Each week, I have noted several names in the S+P 500 that have succumbed to an 18% correction during the week and will highlight APP (from its mid-week high) and TTD this week, while the S+P closed at an all-time high. My viewpoint is mathematically confirmed by the action in the VIX which has remained subdued for almost the entire year. For the last 3 months, the VIX has only had 2 closes above 20 and closed this week at 14.90 even below the close at year-end 2025. If this 18% market correction were to occur, one would expect this to be reflected in the VIX, certainly with some anticipation of that downside move.

6) The performance in the currency market can clearly be viewed as a positive for equities. Bessent and his counterpart Katayama did a masterful job in stabilizing the Yen and the currency markets overall. The Yen has now orderly strengthened from a low of 163.98 to 158.41 (using mid-market reference rate) and the Nikkei rose from a July low of 60448 to 65606 on Friday. While still 10% below the high registered in late June, the Nikkei is still up a shade over 30% y/t/d. The stabilization of the Yen combined with the radical yet so far brilliant policy initiatives of the Takaichi (aka Mrs. Thatcher) are strong fundamentals for the Nikkei going forward.

7) To the chagrin of the equity bears, the reversal in the yen did not lead to an unwinding of what is viewed as the "carry trade." Hard data on the dollar value

of the carry trade and its impact on US equities is at best opaque but the perception is that this is another fundamental underlying the rally in equities. Furthermore, the stabilization in the currency markets as well as the job data led to a meaningful decline in the 2 year and 10 year US government yields with the former declining 9 bps this week and the latter 8 bps, a positive for equities on any discounted cash flow model.

8) Small-cap investors remain almost giddy about the statistically meaningful outperformance of the Russell 2000 over the S+P y/t/d. There have been a myriad of comments as to why this has occurred, probably the most meaningful being the valuation catch-up as the small caps entered the year at a pronounced relative discount to large caps. A broadening of market participation away from the AI-linked mega-caps, the valuation gaps that existed and the fact that most of the constituent companies draw the vast majority of their revenues domestically have all certainly played a major role.

9) Physical gold: The substantive move up this week was due to the decline in government yields as well as the perception that the DXY has peaked for the year. The DXY closed the week marginally lower with the thought being that the move to 101.80 late in June and the price of 101.64 late in July represent the highs for the US$ this year.

10) Digital gold: The fundaments for crypto were somewhat upended by the failure of the Clarity Act to emerge from the Senate Banking Committee. This was even more of a disappointment given that Bessent indicated publicly that he thought it would be brought for a vote. The perception that the Clarity Act is now dead was upended at week's end by the positive action in CRCL and HOOD and the negative reaction in MA and V. Remember also that the crypto PACs, virtually the best funded of all the PAC groups in the USA, are thought to be seriously lobbying all Senators facing re-election this November.

Jeff

Have a productive week.

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