August 30, 2026

1) Clearly, Warsh's Friday speech is most notable for reiterating his hawkish stance on inflation. The Miller Tabak Economist, Paul Shea, who was virtually the only Economist on the Street to get the July jobs data correct, believes that Warsh should "stop worrying about a return of sustained inflation and instead start worrying that high yields are creating a concerning fall in demand." He notes in a report earlier this week--"Consumers May Finally Be Cracking" (your inbox late Wednesday US/early Thursday UK-EU) that real consumption growth in July was essentially zero. Any growth in real consumption was maintained by non-discretionary sectors including housing, utilities and healthcare. Discretionary spending in sectors such as recreation, durable goods declined noticeably. Our Economist's conclusion is that consumption growth will slow through the end of 2026 to "better match the recent mediocre labor market data."

2) Headline inflation readings will pick back up again in August, for reasons explained in his report. The BLS's measurement problems with shelter still make inflation readings seem worse than they truly are. Shea takes the cynical view that Warsh is talking up inflation so that he can "claim credit" for taming it when headline measures inevitably fall. Interestingly, the yields on the 10 year and 30 year government bonds fell 1 bps and 6 bps respectively this week, while the 2 year yield rose by 11 bps to 4.34%. That move in the 2 year is consistent with a more extensive tightening cycle along the lines of 50 bps of hikes with the Fed staying there deep into 2028. Such a policy would be "madness" and "batter the labor market," compelling the Fed to come back down well before then.

3) The action in the equity markets following Warsh's speech was quick and dramatic with all commodity related stocks, which has rallied smartly earlier in the week, declining sharply as well as all equities related to stablecoins and other digital assets. This reflected the noticeable uptick in the US$ as well as the move in the 2 year. The only reliable, liquid market reflecting what occurred on Friday over the weekend is bitcoin which, at this writing, is up 0.0075% since the Friday close. GLD tumbled 5% by the end of the session on Friday from the high earlier in the week and closed below its still upward sloping 200 day moving average to the chagrin of gold bulls. They instead will focus on the fact that GLD has now had 4 weeks of a higher low.

4) Regular readers of Sunday Comments know my most important indicator for the direction of equities is HYG. Given the headlines in the govvie market for most of this week, there was little discussion of the high-yield market. From an equity standpoint, bulls can take solace in the fact that HYG has now established 4 weeks in a row of a higher low and closed above its 50 day moving average, although that remains downward sloping. Any close above the 200 day average, which stands at 80.14 vs the Friday close of 79.74 would turn this writer decidedly bullish on equities.

5) It is interesting to note how well certain markets outside the US are doing despite the geopolitical turmoil. The DAX closed at an all-time high on Friday reflecting the fact that Germany is on track for the fastest GDP growth in 4 years. Optimism among German companies in August rebounded faster than expected with the closely watched IFO business climate index rising by 2.1 points to 88.8, the highest reading in a year. DAX bears have focused in on both the high oil and gas prices and historically low water levels in the Rhine River, the key route for ships serving Germany's industrial and chemical groups. This week, one of the major German banks markedly raised growth forecasts for the remainder of this year and for 2027 as a whole. Turning to the NIKKEI, while that market is down around 9% from its late June highs, it has risen by 9% from the July lows and is still up 31% y/t/d. Bulls on Japan are still enamored with the policies initiated by Takaichi (aka Mrs. Thatcher) and the yen has gradually strengthened from a low of 163.98 on July 23rd to close this week at 160.06. Note that the AUD/JPY ratio has risen for the last 3 weeks, an indicator of "risk on" for international markets.

6) An important theme on which I have written weekly and extensively this year is the contention by the bears that the market will ultimately succumb to its historic 18% correction witnessed in all but 2 of the post World War II midterm Election years. However, as chronicled by this writer, we have instead seen week by week intense corrections group by group and even name by name rather than by the overall market. I believe this will continue to be the case. While rarely a leading indicator, the VIX y/t/d this argument. The VIX closed Friday at 14.43 below even the year-end '25 finish. Giving further credence to this analysis, I published a piece Thursday evening which included the comment that despite all the anticipation of the Warsh speech on Friday, the options market, purely on the mathematical implied volatility, indicated a move of just 0.54% in either direction. Based on a standard deviation normal distribution, and while somewhat counter-intuitive, this implied a 68% probability of the SPY closing + or - 4.2 points. Despite the violence of the move in a plethora of individual names, the SPY move was even narrower than predicted, moving only 2 points.

Jeff

Have a productive week.

Jeffrey Tabak
Miller Tabak + Co.,LLC
(212) 348-5101 office
(917) 208-3317 mobile

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