September 6, 2026

1) The equity bears have vociferously warned market participants all year that the important market indices will indeed succumb to the historic 18% correction witnessed in all but two of the post World War II midterm Election years. Contrariwise, this writer has espoused the viewpoint that investors will continue to witness the weekly intense corrections group by group and even name by name rather than by the overall market. There are a plethora of stocks that have seen 18% corrections this year which was certainly the case this past week with names as diverse as LULU and CIEN. Yet the overall important averages barely budged with the NDX and S+P 500 virtually unchanged on the week. Surely, a black swan event could prove the bears the be correct and we are entering the seasonally weakest period of the year of which all are aware. Nonetheless, this writer sees little reason to change his viewpoint. Should one disagree with this scenario, there is an facile alternative which is buying cheap puts on the index one believes is most vulnerable. The cheapness of such puts is mathematically clear given the level of the VIX. Note the VIX closed the week at 14.53 where it has been meandering about for the last several weeks which is below the close for 2025 and only slightly higher than the 2025 low established that Christmas Eve. The bears will contend that the low level of the VIX suggests an extraordinary level of complacency of which there is certainly some validity. However, ask any portfolio manager who had stocks with significant corrections over the past two weeks if they truly feel "complacent."

2) One suspects that the death knell was sounded this week about the impact of the supposed carry trade on equities. I have researched intently for any true quantitative statistics as to the correlation of the move in certain currencies, particularly the Yen, and its relation to equities; there is a dearth of such data. Examining the numbers this past week, one notes a tremendous strengthening of the Yen between Tuesday and Thursday from 158.36 to 155.32 which for those advocates of the carry trade should have produced cascading losses for equities. Instead, the S+P rallied approximately 100 points on Thursday. The carry trade advocates smugly affirmed that the currency move would result in intense repatriation of capital by domestic investors at the expense of the US equity market. When this did not occur, the silence by those advocating the importance of the carry trade was deafening. Remember also that Japan was able to successfully sell a tranche of 30-year government bonds despite both currency market

turbulence and comments by the very hawkish BoJ member, Hajime Takata, about a "new phase" in which rate hikes will be initiated.

3) Equity bulls were comforted by the fact that the 10 year, after flirting several times with the 4.80%, closed a few bps below that level. Paul Shea, the Miller Tabak Economist, staunchly believes that Kevin Warsh is misguided in his inflation views which is having a deleterious effect on the bond market. He advocates that opinion in his piece this week entitled "The Stage is Set for a Fed Blunder" which followed a previous report entitled "A September Rate Hike Would Be Madness." While the upcoming headline readings on inflation will be bad--the Cleveland Fed forecasting model predicts headline inflation readings of 4.5% annualized--Shea adamantly argues that these figures are "temporary" and will reverse themselves once crude oil eventually retreats. Most importantly, he states there is no source for persistent inflation and if the Zillow housing price index were used in place of the antiquated and mismeasured numbers used by the BLS, the reading would be 1.5% and 2.9% for core-CPI and core-PCE inflation respectively. The recent FOMC communications have provided no rationale as to why inflation will persist unless interest rates go even higher. The best survey of inflation expectations, the Atlanta Fed's one-year ahead survey of businesses is at just 2.2%. Despite the higher yields, the 5-year breakeven inflation is only up to 2.37% well below its May peak of 2.70%. The major conclusion of Shea's current piece is that Warsh's Fed has exacerbated the move up on long-term rates by interpreting the inflation data in the "most pessimistic light possible," while looking at recent labor market reports "through rose colored glasses."

4) The action in the financial stocks this week was interesting in that the money center banks appear to be consolidating their recent smart move up from the late July lows with the credit card companies revealing a similar pattern. The stablecoin and crypto related equities have noticeably advanced with HOOD and CRCL being the leading candidates. As we enter the American football season and the baseball playoffs , one can only expect the prediction markets will show breathtaking growth translating into strong earnings. These investors also remain optimistic that the Clarity Act will emerge from the Senate Banking Committee once Congress returns. As a result, bitcoin appears to be simply consolidating its recent gains. Despite the FT running a myriad and relatively repetitive of stories about the private equity funds capping redemptions, the stocks are noticeably above the July lows. GLD has bounced notably off the late July lows as well but remains extremely sensitive to its upsloping 200 day moving average which it failed to pierce this week.

5) Observe that the Transpos are noticeably off their Spring highs, down around 15%. The bears will argue this indicates a slowing of the economy which dovetails marginally with Paul Shea's view. The bears will also advocate the impact of higher operating costs for diesel fuel and insurance and sticky low contract rates in the trucking industry.

6) Those who intently follow SPCX as to its impact on investor sentiment will happily note that the stock has now displayed 4 weeks of a higher high and is now markedly above its IPO price even after a new tranche of a release of stock by insiders.

Jeff
Have a productive week.

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