25, October , 2026

1) The paramount concept for investors in which fear eclipses greed is uncertainty. We now have a plethora of uncertainties enveloping the entire ecosystem of AI. First, the revenue run rates on both Anthropic and OpenAI have been reduced. The bulls will argue these numbers remain impressive, but the reduction cannot be dismissed. Secondly, there is a growing pushback by and resistance from enterprise customers and corporate clients relating to the costs of using the latest frontier AI products. It is an open question as to how budgetary challenges may or may not impact the Street's estimates of revenue run rates. Thirdly, and about which I wrote last Sunday, the systemic opacity in AI circular financing makes it virtually impossible to glean and separate what exactly is on a company's balance sheet or hidden is some clever, esoteric off-balance sheet vehicle. Fourthly, the continued climb in CDS portends poorly for ROIC from the AI phenomenon as the tech CDS traded at record highs.

2) While one can easily explain the CDS pricing of CRWV and ORCL, that task is more difficult with AMZN and GOOGL. What is crystal clear is that the CDS action is severely impacting the price performance of both equities. While no intelligent investor would suggest that these 2 companies will default on their debt, the pricing is giving credence to the above-mentioned concerns about ROIC. The trigger for the increase in CDS pricing for these two companies was META's 3rd quarter report which displayed negative free cash flow, an increase in cap ex and a new share class to fund spending (of course protecting Zuck's control). As GOOGL reports this week, investors will have razor focus on the cash flow data, as the company reported in quarter 2 its first negative FCF since the 2004 IPO. Bears on GOOGL are salivating over the technical picture, in which there was a compelling negative MACD cross and the stock closed substantially below its 200 day moving average which however is still upward sloping.

3) As if this is not enough to defy the AI/Mag7 bulls, Paul Shea, the Miller Tabak Economist, essayed a piece this week entitled "The US Economy is Starting to Feel Like it's 1999." (your inbox late Thursday US/early Friday UK-EU) He refers to the analysis by the San Francisco Fed which hints that while AI investment has boosted labor productivity, it has "done so less than other forms of investment

such as traditional business equipment." While he believes that AI will eventually deliver major productivity gains, "growing concerns that AI revenues will miss expectations resulting in a correction along the lines of 2000," could induce a severe macroeconomic impact. However, he does not see a parallel with 2008 for reasons detailed in the report. On the matter of Warsh's rate hike, he continues to characterize it as a "blunder" with little hope of a housing recovery until mid-2027. One should note that lumber prices have declined 20% since July.

4) The international picture is laden with gloomy statistics. Why are American strategists not more focused on the fact that the China CSI 300 is now in bear market territory with only a pitiful bounce? The Nikkei has fallen 14% from its late June highs and bears are maintaining that the recent strength in the Yen, having risen from 160.06 at the end of June to 156.81 at the close of this week, has negative implications for liquidity in the US markets. (I find the data to make this conclusion murky at best.) The KOSPI has cascaded 41% from its June 18th high while the DAX has fallen a much more modest 6% since the late August highs. On the energy front, Ukraine is now striking Russian refineries, the Houthis have made drone attacks on the Shaybah oil field which produces 1mm barrels of day of super light crude, and they have actively targeted the Port of Yanbu. Yanbu serves as Saudi Arabia's primary oil export gate and hosts the terminus for the East-West pipeline. The one domestic note I will add to this paragraph is that the SPR is now down to its lowest level since 1982 and has been diminished for 29 of the past 30 weeks.

5) One of the few bright spots I will add to this week's Sunday Comments is the positive trading in the Russell 2000. The Index rose 2% on the week as investors rotated away from high-multiple meg-cap techs into domestic focused cyclical equities where some positive earnings surprises among the Russell stocks confirmed solid domestic business fundamentals. The fall in the yield on the 2 and the 10 year also aided these equities which carry higher proportions of short-term or variable rate debt. The crucial hurdle for the Russell will be the 200 day moving average which has a relatively flat slope around the 2811 level. A thrust above that will produce solid commentary from technicians.

6) The fact that investors keep rotating underscores the point I have been making since the beginning of the summer that the 18% overall market correction the bears have been highly anticipating based on the historic mid-term Election cycle continues to be ephemeral with the calendar now beginning to run out.

7) Observe that the S+P (cash) is now below its 50 day moving average which has turned downward sloping. The focus will be markedly on the 100 day which is only 20 points below the Friday close. It remains upward sloping.

8) Physical gold/digital gold: The dreadful performance of GLD beginning in August, about which I have been writing, has been inextricably linked to the strength of the US$ and higher interest rates. GLD has failed to eradicate the previous week's high for a remarkable 8 weeks and in which 4 of those weeks, the high tick did not penetrate the previous week's close. The positive case for GLD would be that the 10295 tick in the DXY on October 14th was the high for this cycle and that the 10 year yield will not violate the previous 2 week highs. As for digital gold, comments on the SEC Regulatory rules were due October 20th. There were myriad comments from all interested parties. The bottom line is that October 20th was a comment deadline and not an effective date so adoption will require a separate Commission action. The SEC has not stated a date for implementation, but the Chairman remains an advocate of crypto and stablecoins

Jeff

Have a productive week.

Jeffrey Tabak

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

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