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1) For almost the entire length of the time I have composed Sunday Comments, I have written that HYG is my most important indicator for the direction of equities. This etf, with an excellent longer term record, kept this writer steadfastly bullish off the March lows of this year as it had in previous upside moves. Credit investors have generally had a keen early eye as to what deterioration in HYG portends across the entire corporate market and it has historically been followed by substantial weakness in equity prices. Concludingly, I remain flummoxed as to how the equity market (S+P 500) has remained so resilient in the face of significant price weakness in HYG. This etf closed at its low for the year and has now portrayed 4 weeks in a row of a lower high and remains meaningfully below both its 50 and 200 day downward sloping moving averages. This is even more befuddling for equities given the upward thrust in the yield on the 10 year over the last two weeks.

2) The only truly rational explanation one can offer for this juxtaposition is that investors are mesmerized by the growth in corporate earnings and the guidance given by companies. With the virtual completion of the second quarter earnings season, eps accelerated qtr/qtr by 19.8% ($97.60 vs $81.44) and y/y by approximately 53% vs expectations of 23.6%. Corporations always give conservative estimates so it remains no surprise that 78% of companies beat the consensus but the beats were at the high end of the range. While this is truly impressive, the bears will argue that this growth figure is distorted by the gains reported by AMZN and GOOGL which were aided substantially by appreciation in their equity holdings, including Anthropic-related stakes. Nonethless, the consensus for 2026 earnings is now in the $355-$360 (one prominent firm is 7-8% lower) up from $275 in 2025. Estimates for 2027 are now in the vicinity ofS $400.

3) If the forward looking guidance and estimates prove to be correct, that does an excellent job of explaining why the S+P 500 has basically ignored HYG and marched merrily higher this week by almost 100 points. Observe also that the low for this week did not take out the close of the previous week. The bears will focus on the following factors. The RSP (S+P equal weighted etf) noticeably underperformed the SPX over the last month declining 4% vs a virtually flat S+P. This underperformance continued this past week, although in a less severe manner., leading the bears to conclude the market rise is too narrow to be sustained. Secondly, the bears are highlighting the relatively

poor performance of the Transpos, which have declined a shade below 14% since their July 21st high, stating this is indicative of a deteriorating economy which will soon manifest itself. However, one must be cognizant that the Transpos include a so-called meme stock--CAR-- which has influenced that decline. Refuting this argument is the stellar non-defense capital goods orders ex-aircraft, reported Friday as a sub-sector of the durable goods report, rose 1.6% month over month vs a 0.5% estimate and 10.6% y/y. There was also an upward revision for July of 0.6%. This is the best high frequency proxy for private-sector equipment spending intentions.

4) The bears also have a laser focus on the recent poor performance of both AMZN and GOOGL, despite the earnings. The only fundmental explanation can be in the 5 year CDS pricing. GOOGL's pricing has gone from approximately 53 in mid-August to 71.66 on Friday, a significant y/t/d higher high. Likewise, AMZN's 5 year CDS has sharply spiked, closing Friday at 73.21.

5) On the subject of CDS' pricing, France's 5 year CDS has had a significant price jump this month from the low 30s at year-end to 60.69 and is now higher than it was during the worst of the Pandemic. This certainly reflects the comments by Jean-Luc Melenchon, head of the far-left party and a prospective presidential candidate who has proposed cancelling the portion of the French public debt held through the central banking system, which constitutes almost 18% of the country's total debt, rather than repaying it.

6) To highlight one of the last arguments of the equity bears, they are commenting on the decline in the ratio of the Aussie$ to the Yen from the summer highs. The argument is that a higher ratio suggests risk-on and global growth. The problem with this bearish interpretation is the distortion created in the Yen by actual and perceived central bank intervention.

7) To the chagrin of the small cap investor, the Russell has fallen 8% from the mid-August highs and has been stymied in making a higher high for each of the past six weeks. Fundamentally, small caps tend to have more variable-rate debt, greater refinancing needs, and weaker interest coverage. Thus, for the Russell to resume an upward trend, there would have to be an unmistakable decline in the 10 year yield and better confidence in refinancing conditions. Perhaps a reversal of the HYG downtrend would harbor better performance by the small caps.

8) Physical gold/digital gold: GLD has had a tough time given the strength of the US$, as the DXY registered its highest tick this week since mid-July, almost certainly a reflection of the jump in the 10 year yield and the more bullish economic data. Technically, there is GLD resistance in the 401-407 area. Moreover, the performance in the past has been heavily influenced by the 200 day moving average about which GLD remains meaningfully below. As for digital gold, there was major disappointment that The Clarity Act failed in the Senate for reasons mentioned in last Sunday's piece. However, with regulation so important to BTC's price, the SEC has moved to use

existing authority rather than wait for a statutory market-structure regime. Comments on the SEC proposals are due by October 20th. This has fundamentally helped BTC pricing.

9) I have written extensively on the so-called guaranteed 18% correction that was supposed to occur in mid-term Election years and how I assert it has manifested itself differently. I do not believe the subject needs further comments. Note the VIX closed at 14.79, lower than last week, and below the close of 2025.

Jeff
Have a productive week..

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