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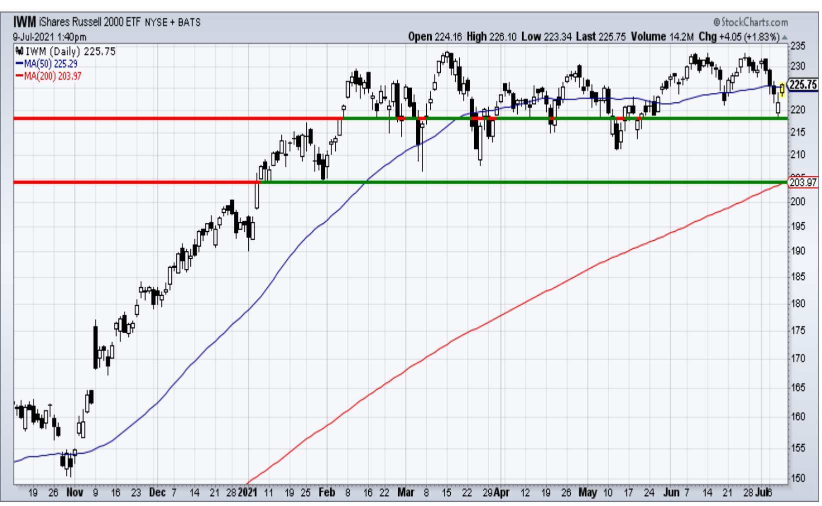
Another bout of selling this week was met with an equal amount of buying. The S&P gapped down on both Wednesday and Thursday. However, both days saw buying in the afternoon to limit the losses to manageable amounts. We are rallying today and are back where we started the week. This market appears to have no interest in a correction. Weakness is quickly bought and strength returns. That will change at some point, but not now. As our missive from last week noted, we did expect some weakness this week. We continue to be surprised that the extent of any pullbacks are limited to 1-2%. Earnings begin to roll out next week and start in earnest the week after next. Earnings (or the lack thereof) will be the catalyst for the next move in the market. While we remain bullish for the year, we continue to believe that the next few months could be a little troublesome. Hold what you have and wait for the next market move.



Small caps continue to lag but did hold important support on Thursday. Small caps fell over 3% during the first 4 days of this week. The decline stopped right at the support level shown in the chart. We are getting a bounce today and are now in the middle of the trading range that started some 5 months ago. We are not likely to have another leg up in the market without small caps gaining strength. A break of support at the 218 level would be reason to get more defensive while a breakout to the upside at the 232 level would be reason to get more aggressive.

Our Point

Falling yields and an uptick in Delta variant Covid cases were the supposed cause for the brief weakness earlier this week. Yields on the 10-year treasury have fallen significantly over the last 2 months. In mid-May yields were 1.7% but are now trading at 1.35% - a 20% decline over the last 2 months. Just this week, yields fell from 1.48% to 1.29% - a 13% decline in 4 days. Normally, a fall in yield would indicate a weakening economy and that nervous traders were fleeing to the safety of treasuries - driving the yield down as demand outstripped supply. However, the recent fall has been accompanied by higher equity prices. It is just one more unusual factor in this unusual market. The Fed's continued dabbling in the treasury market may be an explanation for the recent fall. Regardless, it is something to keep an eye on. We continue to maintain our current holdings and made no changes to our portfolios. We are mostly invested and remain a bit cautious despite the bounce back today. A more substantial pullback (when we actually get one!), should be a good time to get a little more aggressive. Until such time, we will wait for a little more clarity from the markets. Get outside and enjoy this hot and humid weekend.