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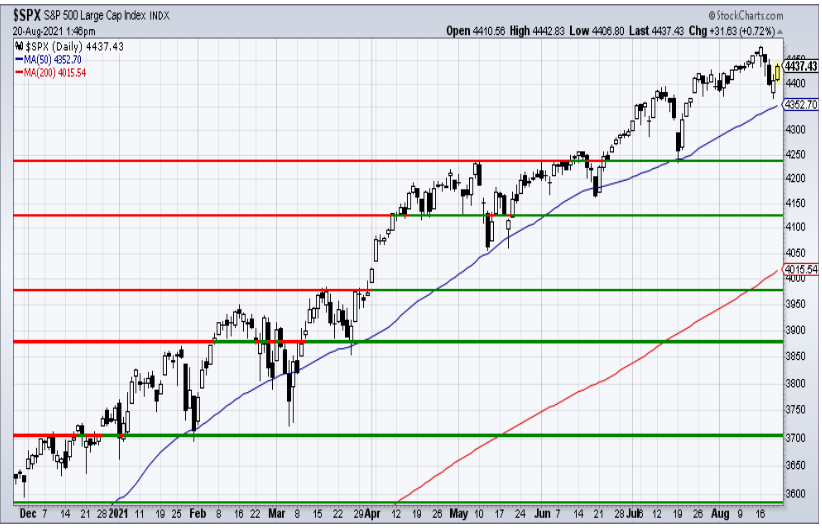
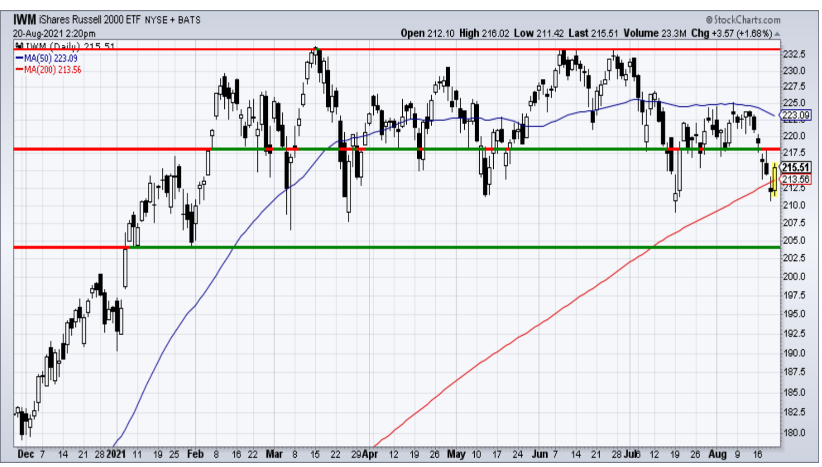
BAM MARKET NOTE

AUGUST 20, 2021



The S&P has come under some selling pressure this week. Despite the doom and gloom, however, this important index is less than 1% from its highs. The "Fed put" and the continued "buy the dip" mentality of investors continue to put a floor under this market… for now. The S&P came close to testing its 50-day moving average before bouncing today. With the continued unrest around the world and the fast-developing situation in Afghanistan, news over the weekend could create additional volatility next week.



As mentioned last week, small caps were weak coming into this week and continued that weakness over the last few days. The Russell 2000 is bouncing today but still remains down over 2% this week. The important 200 day moving average was broken yesterday for the first time since the initial throes of the pandemic last year. The quick recovery today is encouraging but small caps have much work to do in order to begin an uptrend and reverse the damage that has been done since June. The behavior of small caps continues to be a cautionary red flag for the rest of the market.

Our Point

The images and news out of Afghanistan are heartbreaking and tragic. I don't mean to lessen any of that, and our hearts and prayers go out to all those (military and civilian) that are in harm's way. As a financial newsletter, our goals are to translate what is going on in the world and the economy and opine on their effects on the financial markets. Generally, geopolitical events have little lasting impact on market movements. The ongoing and fluid tragedy unfolding in Afghanistan has certainly caused some of this week's weakness. However, the markets will discount the calamity until such time that the events spill over to the economy (if they do). The chaos in Afghanistan raises a number of risks to the economy but none are imminent. In our view, one of the primary risks is the political capital being expended by the White House when that might well be needed to get the expected infrastructure bill across the finish line. Should that bill stall, the failure of the expected windfall of more government money and liquidity would be met with selling. Other less defined and less sure risks include a resurgence of energized terrorist cells around the world and an emboldened China. Already, we are seeing China take hold of the perceived American weakness to make noise in the Taiwan Strait. Obviously, any conflict with China will create more economic questions and concerns than the current situation in Afghanistan. Risks were elevated coming into this week and have only increased as the week wore on. The fallout and any economic effect of the current chaos will develop and become clearer over the coming weeks and months. Investors would be well served to hold what you have and not make any major portfolio adjustments until there is more clarity. In line with that, we made no changes to our portfolios this week and continue holding low volatility positions with a scattering of equities. We are comfortable with our holdings in the current environment but remain ready to react to changing market conditions. Have a good weekend.