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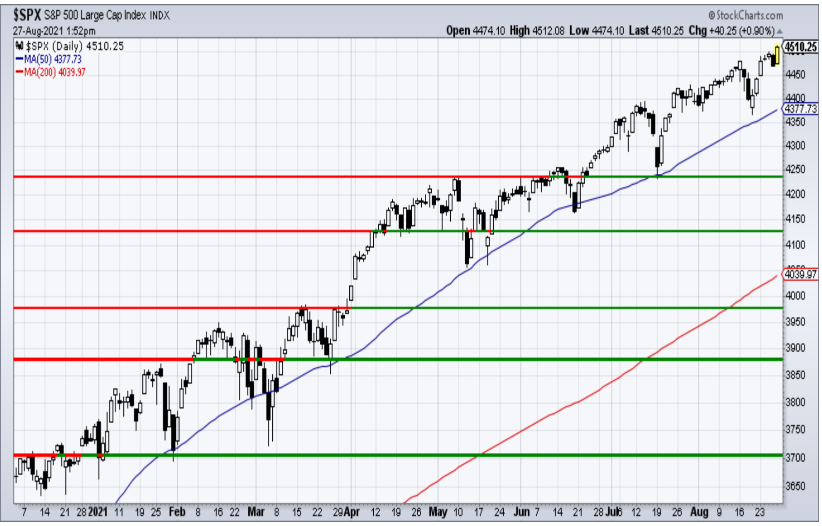
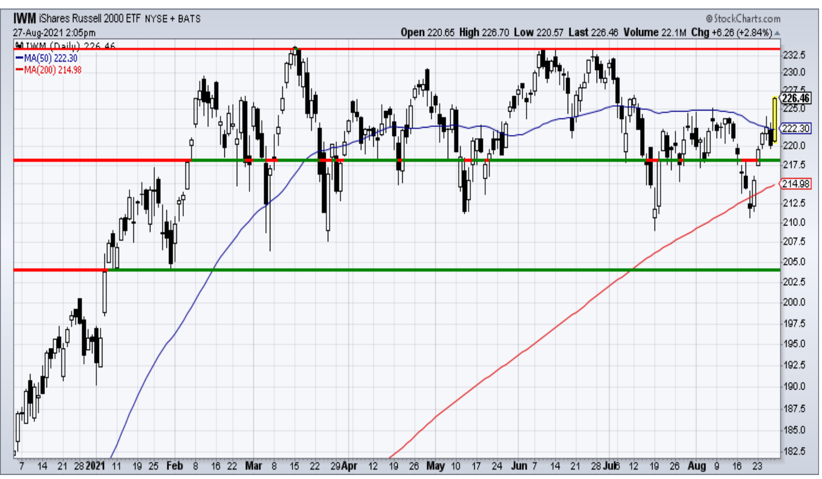
BAM MARKET NOTE

AUGUST 27, 2021



After a small bout of weakness last week, the buy the dip crowd remains crowded. The market refuses to go down more than a few days before buyers step in to bring prices back up. Large caps resumed their winning ways this week moving back up to new highs. Despite a backdrop of worrying news, from a technical standpoint the market looks reasonably healthy. Breadth has improved modestly, small caps have joined the party, high yields have strengthened with the S&P, etc. Valuations remain stretched but that can last for longer than you might expect. We remain a little cautious but are less so than we were this time last week.



Small caps have surged this week and the brief violation of its 200-day moving average seems like weeks ago! This marks the 6th time this year that small caps have broken to the downside of the long-standing trading range. In each of those six times, they have rallied back within days to enter back into the trading range that has persisted all year long. The most recent breach was no exception and IWM is now firmly in the middle of that trading range. We'll see if the bulls can make a run to the top of the range and beyond. The strength here is very encouraging.

Our Point

The markets breathed a huge sigh of relief today as the Fed's Jackson Hole meeting concluded with no surprises. Chairman Powell delivered remarks that were viewed by Wall Street as very dovish despite hinting at reducing the Fed bond buying towards the end of this year. As recently as a couple of months ago, many "experts" were convinced that tapering would be announced and begin shortly after today's important annual conference. Chairman Powell gave himself plenty of leeway to change his mind to an even greater dovish stance should conditions warrant. The markets have drifted higher all day on the dovish comments. Afghanistan continues to be a very sad and fluid situation. The attack yesterday had little effect on the US markets. As we stated last week, events in and around the world have little lasting effect on Wall Street until such time as they begin to affect our economy. To this point, recent events have given little for the economy to be concerned about but that could change if China and other world powers seize upon the perceived US weakness. It is something to surely watch. Inflation continues to surge with the most current reading the highest in 30 years. The Fed remains steadfast that the rise is transitory but for those paying more it doesn't feel that way. Inflation will continue to be a concern for a long time especially if Congress advances one or both of the infrastructure bills currently on the table. We made no changes to our portfolios this week. However, we will be evaluating a few changes over the coming week to see if it makes some sense to become a little more aggressive on the long side. At current levels, we don't believe that it is time to throw caution to the wind, but selectively adding some risk could be beneficial. We will have a busy week! Stay cool and enjoy your weekend.