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BAM MARKET NOTE

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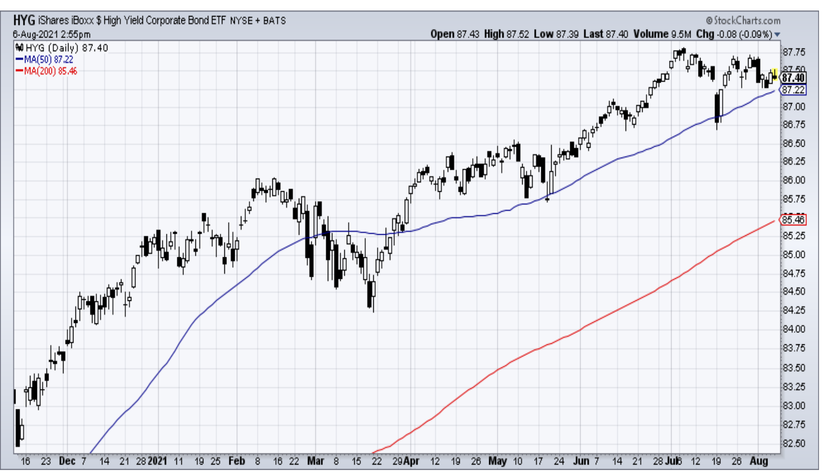
The S&P continues to confound all those that are even the slightest bit bearish. With new highs again this week, the index continues to get stretched higher to the upside. A mean reversion is coming, but when is anybody's guess. The stage is set for a pullback (it really has been for the last several weeks!) with all that is going on in the world, the time of year, the extended valuations, etc, etc, etc… The 50-day moving average remains a strong level of support for any pullback over the coming days/weeks. Despite the continued rise in prices and the Wall Street cheerleaders, the market is at elevated risk levels and continued caution seems warranted. Continue to tighten your stops on positions as the market moves up.



As long-time readers know, high yields are one of our favorite sectors to look at to determine the health of the market. Often high yields will warn of potential issues with the economy before the equity markets do. While high yields have remained above their 50-day moving average, they have weakened noticeably since reaching a high in early July. They are now in a short-term downtrend and are just a bad day or two away from breaking down below the 50-day average. Continue to watch this chart for warnings of a more sustained pullback in the equity markets.

Our Point

This morning's jobs report was a blow out report and a big surprise to the upside. After the anemic ADP report earlier this week, many were braced for a disappointment. Despite the healthy gains and a reduction in the unemployment rate, Wall Street has failed to get excited. It remains a strange market where good news is okay news and bad news is good news. The reaction (or lack thereof) lends more credence to the idea that what the markets continue to want is more money, more spending, and more liquidity. The jobs report puts a damper on some of that push for spending. Surely, in the back of trader's minds is the CBO scoring of the Infrastructure bill which indicates that it is far from revenue neutral. The scoring puts the bill at further risk and today's report only adds to the uncertainty related to the bill. At last report, the Senate was pushing for a vote this weekend so next week could see some reaction one way or another. The Delta variant continues to grab headlines and some areas (including Williamson County) are beginning to defer elective surgeries. The specter of mask mandates, remote schooling, shutdowns, etc. has the potential to disrupt the giddiness of the markets. Throw in supply chain issues and increased inflation and it would be logical to ask why is this market up!? Despite our continued wariness, we did add to some of our positions this week but mostly in our low volatility holdings that should hold up well on any pullback. Our first taste of football in six months came last night and I was glad to have it. Looking forward to cool fall weekends. In the meantime, I will still enjoy the hot and humid ones. Enjoy yours.