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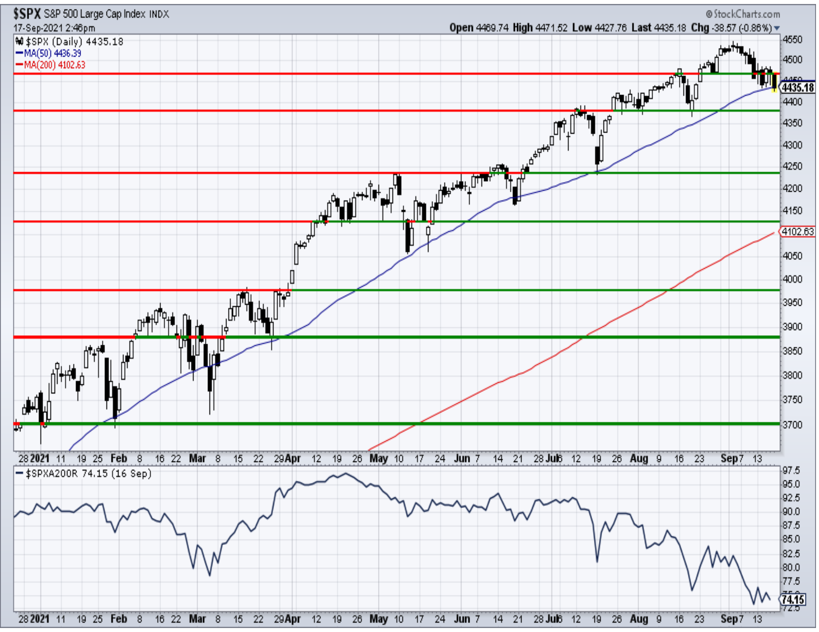
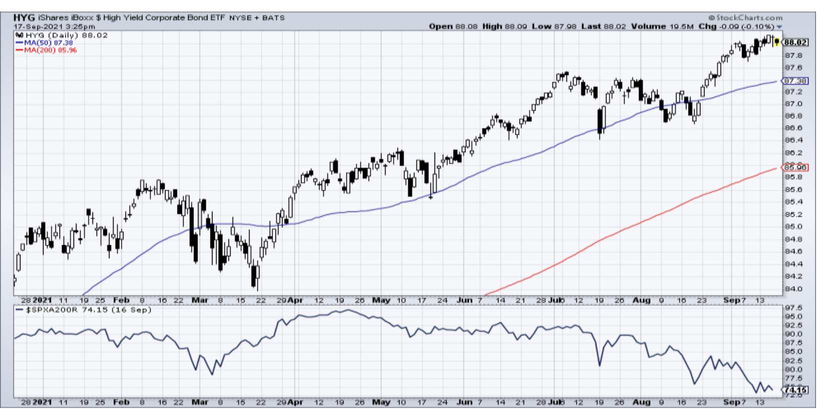
BAM MARKET NOTE

SEPTEMBER 17, 2021



As we mentioned last week, a trip by the S&P down to the 50-day moving average was not unexpected. This level of support has held several times over the last 6 months. The lone exception was the March decline which had a spike lower before bouncing back up above the 50-day average. We are at that point today with the S&P at important support. A decline to the next support at 4400 would not be a surprise, however, a break below that level could lead to more substantial losses. Next week marks one of the historically weakest weeks of the year so we may soon see if the bulls can make a stand. I added a chart below the usual one that shows the percentage of S&P stocks that are above their 200-day moving average. As you can see, this indicator has been in a steady decline since April which illustrates the breadth challenges for the market and the fading strength below the surface.



High yield bonds are not yet signaling weakness in the economy but have started to trade sideways over the last week or so. They are near their highs but may be starting to roll over. Should this trend accelerate to the downside, it may be time to consider taking some defensive action. It is too early to do that now, but it is something to definitely watch. With the S&P at support and close to secondary support, we will have to see if those levels hold before getting too concerned.

Our Point

This week, the specter of taxes has caused a little bit of nervousness on Wall Street. Multiple Democratic tax proposals and ideas are floating around and causing some concern. Perhaps the largest of these would be a change in the capital gains rate. An announced change in rates would cause a flood of selling as investors rushed to sell highly appreciated assets before the new rates went into effect. The result could be a watershed decline in the markets. A retroactive change, though legal, would be viewed by many as unfair and a changing of the playing field mid-game. It would not be well received. This will be worth watching to see how it plays out over the coming weeks and months. Despite the weakness again this week, the markets have not declined very much and are still close to their highs. The losses feel worse than they are as many investors have become accustomed to low volatility increases with very shallow pauses. We will have a significant correction at some point, and it will start just like the current weakness. There is no way to predict when a more significant decline is coming but you can get clues from various technical indicators. Currently, there is conflicting evidence which is reason for some additional caution and trepidation. We remain in the bull camp but do expect volatility to pick up and a more substantial pullback before the end of the year. The cash we raised a few weeks ago remains ready to deploy but we made no changes this week. We may free up more cash next week if the weakness continues. It looks to be rainy in Nashville this weekend so I will have an excuse to watch football all weekend. After last week's losses (Vols and Titans), I am hoping for a bounce back week! Here's to your weekend being a great one.