



The market continued its melt up this week as the S&P trudged forward to new highs. It hasn't been explosive, but it has been very steady. Any attempt at broad based selling has been met with newfound buying demand. This morning is a prime example as market futures indicated a weak opening. However, within the first hour or two of trading, the markets had all turned positive. There is just no current appetite for selling and this market looks like it wants to continue up.

While all looks good with the major indices, high yield bonds continue to flash a caution sign. After hitting new highs in mid-September, high yields sold off and have only made a weak attempt to recapture those losses. High yields stubbornly remain under their 50-day moving average creating some indigestion among technical market analysts. We will feel much more comfortable giving the all clear once this important market sector turns up in earnest.

## Our Point

Next week will be a big week for potential market moving news. Obviously, the earnings parade continues with daily releases – any one of which could move the market. However, the bigger news will come Wednesday and Friday. On Wednesday, the most recent Fed meeting will conclude. Wall Street is fully expecting some announcement on the timing of tapering with many expecting the Fed to reduce its bond buying beginning either mid-November or mid-December. We suspect that Wall Street will have little reaction to the announcement of the beginning of the tapering. However, the Fed has provided few details of the pace of any tapering. The devil is always in the details and if the Fed surprises the market by either tapering too much or tapering too little, we could easily see a quick and sharp decline, or a relief rally up. In addition to tapering talk, the Fed also will have to address the continuing inflation issues. Raising rates is one of the primary ways to fight inflation. The Fed is in a tough spot with an economy that is beginning to show signs of slowing down, persistent inflation and the prospect of needing to raise interest rates (Stagflation?). While it is very unlikely that anything changes with interest rate policy at the upcoming meeting, many will be looking for changes in language coming out of the meeting. Some Federal Reserve Governors are beginning to sound much more hawkish. Though a few days after the fact, the Fed will definitely have an opportunity to provide Tricks or Treats for the market. It is a difficult needle to thread so we will wait until Wednesday afternoon to see how well the Fed does. On Friday, we get the monthly jobs report which always holds the potential to influence the market. With some signs of the economy slowing, this report will be looked at closely. Despite the worries, we still remain optimistic for the next few weeks as historic tailwinds come into play. We made a few changes to our portfolios this week as we added some additional equity exposure. Have a great weekend and enjoy your Halloween!