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BAM MARKET NOTE

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Another week, another push up by the markets. The S&P continued to climb higher this week with modest gains each day. The modest daily gains stack up though and the S&P looks to finish the week up a solid 2%. Make no mistake, this is an extraordinarily low volatility up-trend and has been since the middle of last month. Over the last 18 trading days, there have been 16 up days and 2 down days – that is extraordinary! For the most part, the up days have been modest and the down days small. The melt up continues and shows no signs of abating. The only caution is that the market is beginning to look a little over-extended. A pause next week or a small pull-back should be expected. However, there is no reason to believe that this market won't continue up in the very near term.

High yields have been fashionably late to the party, but they eventually joined this week. The failure of high yields to confirm the recent rally was a big concern. However, the fact that high yields turned up this week lends a great deal of credence to the strength and veracity of the recent market rally. Small caps (not pictured) have also turned up in earnest– another very positive sign. The only real negatives to the current market environment is the fact that it is getting over-extended and there is a fair amount of complacency. But that is getting a little nitpicky! Enjoy the run up while you can.

Our Point

The news this week couldn't have been much better for the markets. The Fed meeting turned out to be just as the market expected – maybe even a tad more dovish. As the Fed had long telegraphed, they announced a modest tapering of their liquidity providing bond buying. The plan (subject to adjustments as market conditions warrant) is to reduce the amount of their bond and mortgage purchases (currently $120 billion a month) by $15 billion a month. If all goes according to plan, the removal of that liquidity would take a full 8 months to accomplish. Additionally, the Fed announced that they are not even thinking about raising rates (very dovish). However, inflation remains an issue and a big concern. If it doesn't moderate soon, the Fed will have to accelerate their interest rate policy and that likely will be the cause of the next big down move in the market. But that is the subject for another note at a later time. For now, the Fed is in the rear view and the market can breathe a sigh of relief. On the jobs front, this morning's report exceeded expectations and hints that the weakness of other economic indicators may have been overblown. A recovering economy in a continued low-rate environment is just what Wall Street wanted and it has responded accordingly. Earnings season has been good by most all measures and future projections palatable. With earnings beginning to slow down, the traditional end of year tailwinds should provide for enough momentum to carry the rally through the end of the year. As noted above, we are likely to see some weakness soon, but it should be mild and will provide those left behind a chance to jump into the market. I don't say it often, but everything looks pretty good as we wind up 2021 – I hope that isn't the kiss of death! We have concerns as the calendar switches to 2022 but, again, that is a subject for another note. We started adding to our equity positions a few weeks ago and have continued each week since. We are currently fully invested and are enjoying the recent up moves. Have a great weekend. Party on Garth!

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