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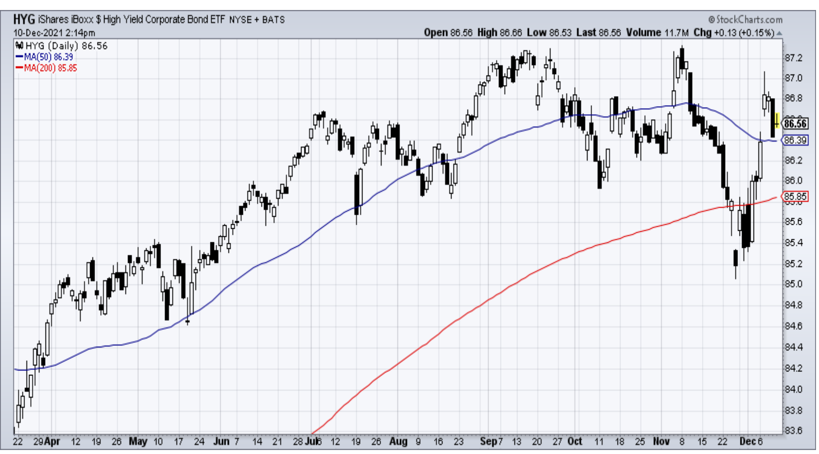
BAM MARKET NOTE

DECEMBER 10, 2021

The markets surged back this week lending credence to the idea that the recent weakness was just a normal correction. It appears that a bottom was made last week. Additional confirmation would come if the S&P can regain the highs of a few weeks ago. Up trends are made with higher highs and higher lows. Accordingly, the S&P needs to hold the recent lows at 4630 and establish a high greater than today's price. With seasonality fully behind the market and mutual fund distributions beginning to wane, it is reasonable to assume that the market will drift higher through the rest of the year. Assuming can be a dangerous business so we'll just follow the charts and go where they lead us. For now, it leads us to expect higher prices. Hold what you have until the market tips its hand further.



As mentioned here often, high yield bonds are often the canary in the coal mine. They often foretell the state of the economy and the direction of the market. When they fall, it is time to pay attention. They did just that with the recent decline but have since regained their footing and are back above the 50-day moving average. It is another positive sign that the worst of December may be behind us. As always, we'll be watching high yields (among a host of other things) to get clues on where the market is headed next.

Our Point

Higher inflation data this morning was expected to cause another down draft in the markets. However, the indices rose on the numbers. Despite pulling back a little mid-morning, the majority of the indices remain up today. It seems that higher inflation is priced into the market, and it would take more extreme readings to cause the market to fall. The reaction is encouraging and indicates a willingness for traders to stay in this market. While the S&P is nearly back to its highs, the other major indices still have some work to do. The Dow fell 7% in the recent decline and remains nearly 2% off of its highs. The NASDAQ fell 6% and remains 3% from its highs. Finally, the Russell 2000 fell 12% and remains 9% from its highs. Small caps will need to join the party soon. There is optimism that they will as they are generally among the best performers over the coming part of the year. Next week is another Fed week as the FOMC meets on Tuesday and Wednesday. Wall Street is beginning to think the Fed may speed up its taper and start talking about an interest rate hike (this morning's inflation data adds to that assumption). The Fed is trying to thread the needle by beginning to cut back on market liquidity and begin interest rate hikes without roiling the market. It is a tricky situation so next week could increase market volatility. Tightening beyond current expectations would likely lead to another sell-off. However, a more dovish stance would likely lead to a market rally. Chairman Powell has been dovish for some time though he is getting pressure from other Fed officials to move more quickly. We'll find out next Wednesday. Between now and then we'll get more readings on inflation that will be watched to get a gauge of the Fed's thinking. I hate to think that monetary policy is political but sadly it is. Next week could be interesting! Big storms are possible in Nashville tonight so those in the area batten down the hatches. Enjoy your weekend and we hope you are doing something fun with family and/or friends.