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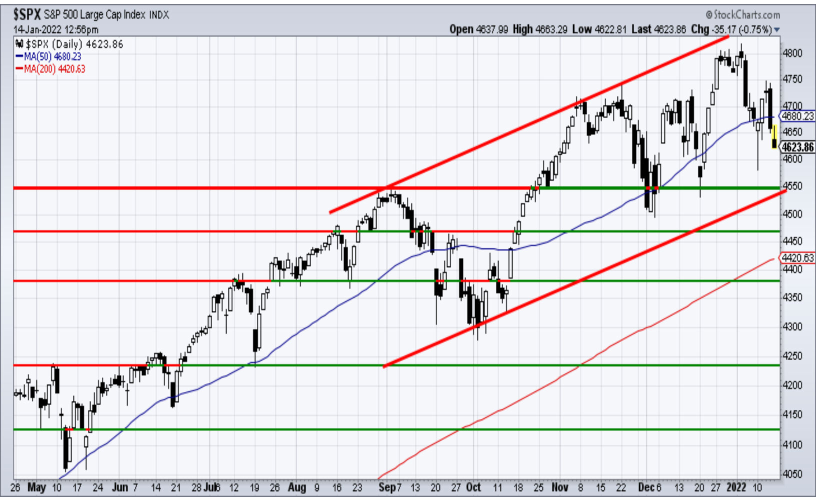
# BAM MARKET NOTE

**JANUARY 14, 2022**




The S&P has had another down week and looks to be in the early stages of a downtrend. The damage thus far has been mild as the index remains a little under 3% from its highs. For the S&P, at least, the recent decline is nothing to get overly excited about. However, you can clearly see that volatility has increased over the last 4 months. The price channel marked by the red lines has not been breached and does fall at very important support at the 4550 area. It is likely we reach this level over the coming days/weeks. What we do from there will likely determine if we are in for a protracted decline or if this is just a normal correction in an otherwise up market. Caution should be exercised.


The Nasdaq 100 (as represented by the ETF QQQ) does not look as constructive and broke some support last week and has another level of support in sight. The Nasdaq has declined nearly 7% from its highs and, on a relative basis, is much weaker than the S&P. The tech heavy index has gone nowhere since early September of last year. If support at the 370 level is broken, a quick move down to the 350 level is likely. Beyond that, things get very dicey and dangerous. This may turn out to be nothing but a normal correction but be prepared if things accelerate to the downside.

## Our Point

This week has been full of market making news. Inflation continues its torrid pace and recorded the highest reading in over 40 years. Retail sales came out this morning and surprised to the downside. High inflation and low growth is not a good formula for stock markets. The gridlock in Washington continued this week as the Build Back Better bill is all but dead. Similarly, the Democrat's push for more nationalized election laws was thwarted by Republicans and Senators Manchin and Sinema. From a market standpoint, the failure of Build Back Better means less government money sloshing around and is a short-term negative for the market. The failure of the voting rights bill is more emblematic of Washington's failure to compromise and get things done - this could be viewed as a positive or a negative depending on your political persuasion. In any event, with the split in the ruling Democratic party, it is unlikely that any major legislation gets done before the mid-terms. The widely expected shift in power in Washington will lead to further gridlock – again some would argue that that is good. The Fed remains in a difficult spot of their own making. Interest rate hikes should have begun last year when growth was stronger and inflation lower. Now the Fed has to balance managing inflation with a weakening economy. While the Fed is supposed to be non-partisan, it really hasn't been for many years. With the mid-terms coming up this fall, it is likely that the Fed will push to increase rates earlier rather than later to avoid any possible negative impacts to the market right before the elections. This means that the Fed could become overly aggressive in rate hikes over the coming few months. In our view, the market's realization of this is largely to blame for the recent weakness. That and the fact that the markets were/are overvalued and due for a pullback. We have continued to pare risk from our portfolios and will continue to do so if the markets continue their weakness. Get out your sleds for another wintry weekend in Tennessee. Enjoy the snow and stay warm.