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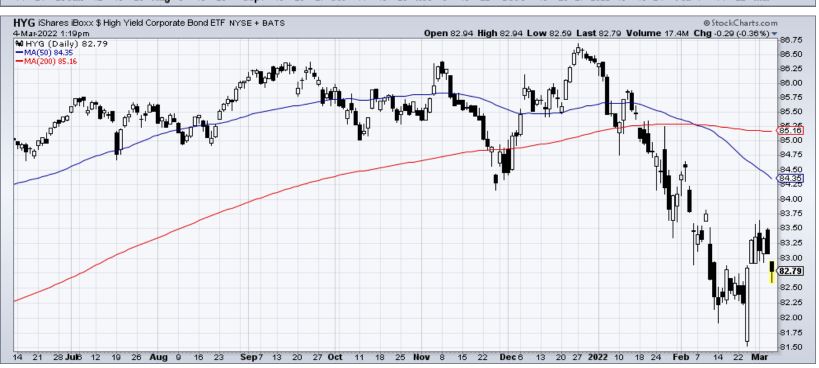
BAM MARKET NOTE

MARCH 4, 2022

Day to day (and even intra-day) market swings have become commonplace over the last few weeks. The swings represent how uncertain the market environment is and how much it is currently headline driven. The news of a nuclear plant attack in Ukraine last night led to an early morning sell-off. However, as I write this, the market is climbing back up. It would not be surprising to see the market up by the end of the day or down 2% at the close. Thus marks the state of the market! It is as unpredictable now as the weather in Tennessee. The S&P rose to resistance at the 4375 level 4 times over the last week before briefly rising above it yesterday. However, a late day swoon yesterday brought the index down below resistance and today's selling brought support at 4230 back into mind. We have been stuck in this range for 2 weeks. Still a treacherous and uncertain market. Be careful.



High yields began to show a little life last week and had gotten our attention. However, today's selling has tempered our enthusiasm some. The recent highs mark an area where we will want to see this important sector exceed before getting too excited that we have reached a bottom. High yields are very sensitive to the outlook for the US economy and, accordingly, are a good indicator of where the market is heading and how much fear and uncertainty is present.

Our Point

News out of Ukraine continues to drive the market swings we are seeing. Last night's shelling near one of Ukraine's nuclear power plants (the largest one in Europe) and subsequent fires raised the specter of a nuclear meltdown and disaster. Fortunately, the fires were contained, and no damage was done to any reactors. Russian forces have taken the site and now hold control over 25% of the power in Ukraine. The takeover of the plant could result in a quicker fall of Ukraine should Russia decide to weaponize its control of the plant and shut down power to a large part of the country. While the war is to blame for much of the current weakness, a resolution is not likely to change the current market malaise. That said, any resolution in Ukraine will provide a powerful one-to-two-day rally that many will get excited about. Longer term, the issues that were facing our economy before Russia's invasion remain. Inflation and the Fed's response to it will be key to the health of this market over the intermediate and long term. Chairman Powell took much of the drama out of the mid month Fed meeting when he announced that he is in favor of a measured 25-basis point increase. With that stand, any changes that come on March 16th, will be met with selling. As always, the headline number is important but what the Fed actually says (or doesn't say) in the release will be just as important. The war in Ukraine seems to have taken a larger increase off of the table. Similarly, the very strong jobs report this morning gives the Fed some cover to be measured in its rate increases. While the headline job gains were impressive by any measure, the report also indicated that wage gains were flat from January even as inflation continues to rise. Raising rates in a weakening economy is never a good thing so the Fed will hope that wage gains catch up to the job gains. Headline risk remains real, and investors should tread lightly. We made no changes to our portfolios this week but are watching a couple of positions closely as they have begun to weaken after holding steady for the early part of the year. We remain defensively postured and are monitoring our remaining positions closely and will respond to what the market throws at us. Enjoy a beautiful weekend wherever you are.