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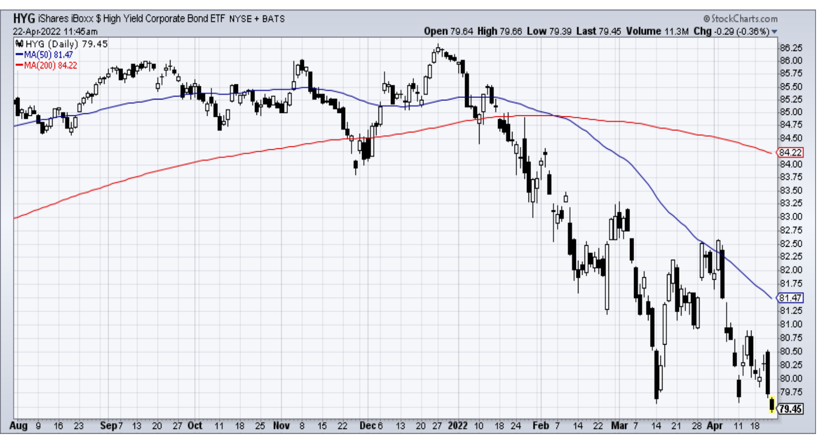
BAM MARKET NOTE

APRIL 22, 2022

Things have turned sour since we last spoke 2 weeks ago. The S&P has turned down further over that period, shedding 3.5% as of the time of this writing. The large cap index is now down over 9% year to date. Not to be outdone, the NASDAQ tech laden index is approaching that ominous 20% down level as it looks to close today down nearly 17% year to date. It is not a pretty picture. The S&P broke support this morning and there is a significant gap before the next support level. Absent a stand by the bulls over the next couple of days, we are likely to hit that support level at the 4230 level. There is an increasing likelihood that we will test the yearly lows. We'll see how the market closes today but risk is very elevated and extreme caution is warranted.



As we have stated here ad nauseum, high yield bonds are often a good predictor of the market's view of the economy. The continuing and accelerating weakness in this important sector bodes ill for the rest of the market. While the major indices are still well above their lows of the year, high yields are eclipsing their annual lows today. The tendency for high yields to tip their hand for future economic weakness should give every investor cause for concern over the near term.

Our Point

By and large earnings season has been a disappointment thus far. The early reporting banks produced mixed results at best. Netflix was the headliner this week as Wall Street threw cold water on it after its earnings release and forecast. The release and significant declines in subscribers led to a 35% pummeling. The likes of Apple and Amazon report next week so we will see if they can shed a little luster on an otherwise dour tech outlook. Inflation continues its torrid pace and the war in Ukraine shows no sign of abating but rather of ratcheting up. It's a big wall of worry for the market to overcome. Fed speak this week had Chairman Powell sounding hawkish with confirmation that a 50-basis point interest rate hike was on the table for the upcoming May meeting. While not surprising, the frank talk seemed to rattle the market some as the combination of rising rates and a slowing economy is never a good thing. With the chances of a 50-basis point hike increasing, traders are starting to weigh the chances of a 75-basis point hike. In times of trouble, bonds and bond alternatives are often a safe haven to generate some return. However, with rising rates, bonds have been anything but a safe haven thus far in 2022. As we have mentioned here in issues past, since the late 1970's we have been in a falling interest rate environment. With rates falling to near zero in the aftermath of the 2008 financial crisis and the recent pandemic, we are in for a rising rate environment for some time to come. While rates won't be a straight line up, the idea that bonds will be a continued safe haven for years to come creates an environment where investors are faced with a challenge that many have not considered. We made some minor changes to our portfolios over the last 2 weeks as we seek to find strength in the midst of an otherwise weak market. We took small positions in several funds that have shown some strength. We have a short leash on them all as this remains a dangerous market. Enjoy your warm pollen filled weekend.