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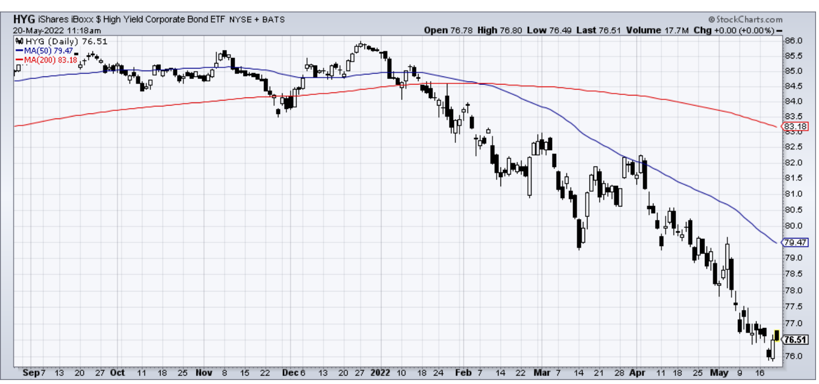
BAM MARKET NOTE

MAY 20, 2022

Another week and another loss for the major indices. Weakness abounds and shows no sign of abating. The markets continue to be oversold and ripe for a counter-trend rally but each rally over the last couple of weeks has been short-lived and met with more selling. We mentioned capitulation last week and it looked like Wednesday might be that day. However, capitulation is often met with a large increase in trading volume. As you can see, we did not have that on Wednesday. The decline has been orderly and without undue panic by market participants. We would really like to see a down day with lots of volume and some level of panic before getting serious about calling a bottom. It doesn't appear we are there yet, and lower prices are likely. An oversold rally in the next week or so would not be unexpected but any excitement should be tempered. The S&P is testing the 3900 level for the 3rd time in 2 weeks. A break here could easily see a drop of another 5% in short order.



High yields continue to be extremely weak and provide no hints of a bottom forming. The spread in yields between treasuries and high yields is widening but is nowhere near the levels of prior bear market spreads. High yield bonds will be an excellent investment when the dust settles but we aren't there yet.

Our Point

It is said that it is the darkest before the dawn. While it looks pretty dark, we fear that more darkness is on the horizon. The darkest days are those where CNBC and the other mainstream press announces with much fanfare that the end of the world is near and that we are in the mother of all bear markets. While there are rumblings by pundits, many are not yet convinced. China's surprise interest rate cut overnight led to early gains this morning, but they have now evaporated. It is not a good sign when oversold markets sell off on "good" news. Fed Chairman Powell reiterated yesterday that the Fed will continue to raise rates until inflation is tamed - throwing cold water on the few holdouts thinking the Fed would come to the rescue as it has so often done over the last 13 years. The Fed remains in a tough place (of there own making mind you!). Powell stated that "there could be some pain involved." Should the markets continue their epic decline, we will soon see the resolve of the Federal Reserve. With mid-terms just around the corner, pressure will be great to show some good economic news before the levers are pulled. We have no idea when the current weakness will subside, but we do know that the sun will come up again. Until such time, much caution is warranted. Those that have ridden this market down should highly consider selling positions on oversold rallies. Our portfolios remain defensively postured and, while suffering some losses this year, have fared much much better than the major market indices and our client portfolios are mostly intact. Small losses can be recovered but large losses can prove much more difficult to overcome. With the NASDAQ now down 30%, it will take market gains of over 40% just to get even. Yet another reminder that losing money is bad. Have a cold one and enjoy your hot and humid weekend.