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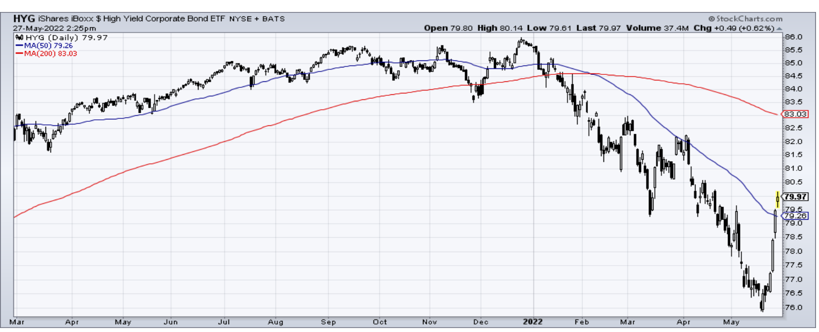
BAM MARKET NOTE

MAY 27, 2022

After seven straight weeks of selling, the S&P is rallying to have its first up week in 2 months. The S&P is up strongly today and challenging the resistance level at 4130. The question on everyone's mind now is this an oversold bounce or the end of the downturn that started in early January. Frankly, it is too early to tell one way or the other. While the weight of evidence suggests that this is an oversold bounce, the market has a way of making fools of as many investors as possible. The S&P and rest of the market has quickly become overbought, so some digestion (at best) is likely next week. Alternatively, we could see selling return next week. Either would be instructive and would help determine where the market is heading next. Markets often bottom before the economy as it looks several months into the future. Today, the risk on trade is present but that could quickly change. Despite the strong gains of this week, it is too early to get too excited or to get aggressive on the long side.



High yields have had a very impressive bounce this week. They have now eclipsed the declining 50-day moving average. However, like the rest of the market, they are very overbought. If they can hold the 50-day moving average next week, it will lend some credence to those (few) that are calling a stock market bottom. This very important sector should provide more clues next week. We are watching them closely.

Our Point

Things looked pretty bleak last week; but this week's reprieve has buoyed the hopes of many investors that rode the market down to its depths. The rally this week was likely some short covering by investors that were betting the market was going down further. Should the rally extend and buyers step in, we may have seen the bottom. However, working in contrast to the short covering are investors that have suffered large losses this year and are just looking for a bounce to sell into. Investors that choose to sell into the rally (a prudent course in our mind) will throw water on the current strength. Over the last few weeks, we have seen a few powerful rallies that fizzled out after a few days. That is consistent with bear markets. Eventually, the rallies will continue, and a bottom will be formed. However, we don't currently believe that is the case and expect this rally to fade in the coming few days. Our market views are fluid and will change as more data presents itself. One of the many benefits of preserving capital in a downtrend is the luxury of being patient as you are not pressured to recover large amounts of lost capital. Fortunately, we are in that position now. If we are wrong and the market rally continues and the bottom holds, then we can begin layering in exposure without the undue pressure so many feel in trying to recover large losses. If we are right, then our defensively positioned portfolios will remain a good place to hide until market conditions improve. We are prepared for either case. We continually evaluate our current positions and are building and adding to our list of interesting positions to buy once we feel more comfortable with the market environment. We made no changes to our portfolios this week. Next week will be a short trading week as Monday marks Memorial Day and the unofficial start of summer. More importantly, Monday recognizes all those that have fallen in service to our country. As General MacArthur said some 60 years ago, *"I do not know the dignity of their birth, but I do know the glory of their death. They died unquestioning, uncomplaining, with faith in their hearts."* Enjoy your weekend and remember with gratefulness.