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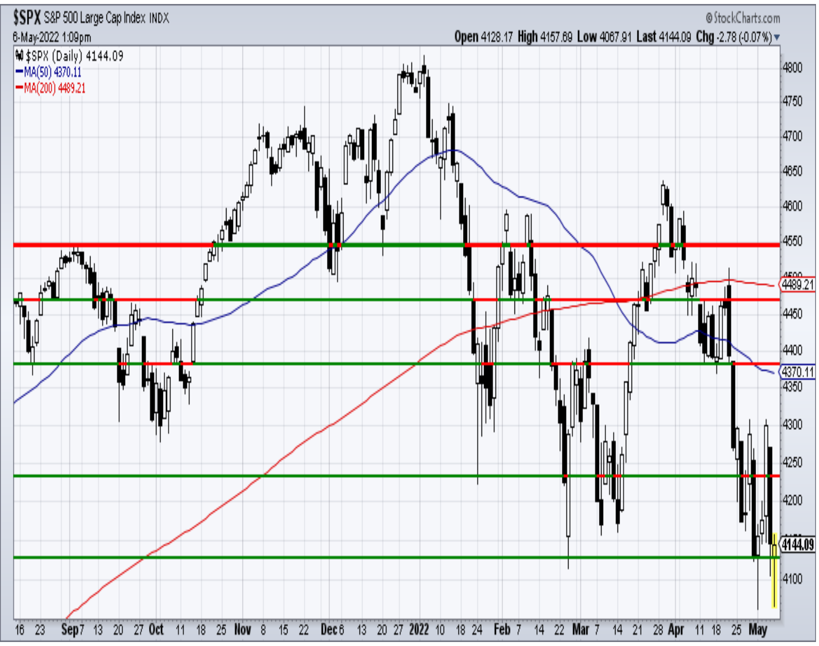
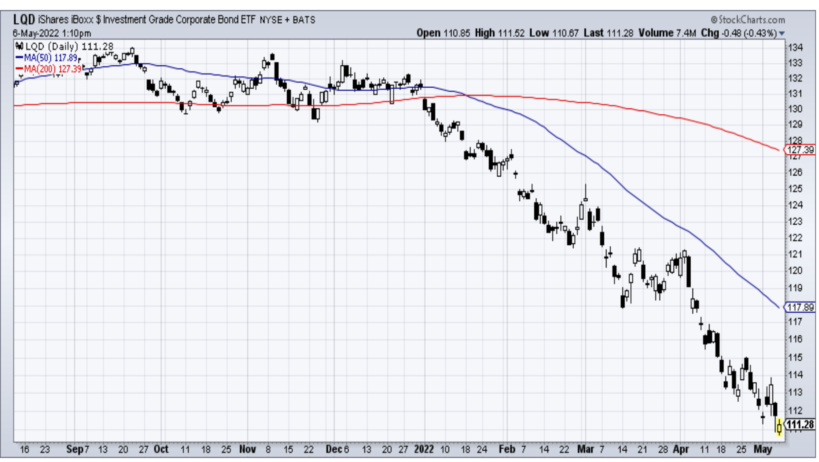
BAM MARKET NOTE

MAY 6, 2022



It has been another fascinating week. The weakness from last week seemed to fade a bit as the market rallied early in the week into the Fed meeting. The Fed produced no surprises and the market rallied strongly. That was Wednesday. It seemed that traders woke up on Thursday morning mumbling to themselves "what have I done?". The result was a massive sell-off on Thursday that erased all the gains for the week. To this point, Friday has been volatile with another large decline early in the morning. However, at this writing, much of the losses have been pared. It has been an exciting few days, but it looks like the market will finish just about where it started the week. The bottom level of support was tested and, to this point, has held. A break below this support will bring 4000 into play on the S&P. That level is key and will be the subject of future notes when/if we get there. Risk is at very high levels. Tread cautiously.



For the last 40 years, bonds have been a safe haven and a way for investors to limit their risk in the stock markets. That has changed this year as bonds have been among the worst performing assets. LQD is an ETF that holds investment grade bonds in some of the largest domestic companies. It is supposed to be a store of value that generates a modest return. However, with interest rates rising and the economy slowing, LQD has been anything but a "safe" investment. For the year, LQD is down 15% - more than the S&P 500's loss of 13%. The changing behavior of bonds is something to continue to watch and monitor.

Our Point

Despite the roller coaster ride this week, it appears we will finish the first week of May right where we ended the prior month. With yesterday's large decline, it certainly doesn't feel like we have been nowhere! Weak and uncertain markets often behave like this. Volatility is a hallmark of weak markets as short covering can produce big up days in the midst of a over-riding decline. Over the last year, the S&P has now turned negative. The NASDAQ has fared much worse as it is now down over 11% over that same period. Year to date, the NASDAQ is in bear market territory while the S&P is moving that way. The Fed surprised nobody on Wednesday with its 50-basis point interest rate increase. The big news was Chairman Powell's statement that a 75-basis point increase was not on the table for future meetings. Wall Street cheered and stocks soared. The mood soured on Thursday and all of Wednesday's gains and more were taken back. Some thought that Thursday might be the capitulation day that often ends a market correction. However, we don't agree and think there is more weakness to come. 4000 on the S&P is a very key level from both a technical and psychological standpoint. We believe we are headed there next. That level is a mere 3% from current levels and will be a line in the sand for the bulls. Our portfolios have managed the volatility well, but we remain on guard. We made no changes this week and remain defensively positioned. Happy Mother's Day to all the moms out there – Enjoy your special day. We literally wouldn't be here without you!

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