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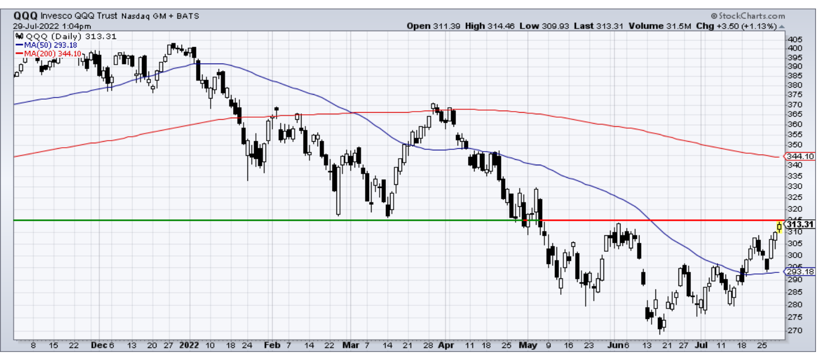
BAM MARKET NOTE

JULY 29, 2022

The market has staged an impressive rally over the last 2 weeks. After languishing in a trading range for a month, the S&P rallied through resistance levels at 3900 and 4000. The next hurdle will be the June highs where the market hovered for a couple of weeks. This resistance is significant as it marked the clustered top right before the June swoon. Things have turned decidedly positive in the short-term as the major indices have all rallied through resistance levels. There are not many things more bullish than a market rallying on bad news and the market has done just that over the last few weeks. Significant resistance lies ahead but there are reasons to be optimistic. Though things look better – much better – there remain reasons to be a little wary of the recent market strength.



Like the S&P, the NASDAQ has also rallied strongly. In fact, the tech heavy index has been even stronger than the other major indices. Similar to the S&P, it also currently lies right at the June highs. The current uptrend is a textbook uptrend with higher highs and higher lows. With the strength this week, a pullback next week is likely. If any pullback holds above the July 21 highs of 308 and another rally begins, it will add further weight to the notion that the worst is behind us.

Our Point

It has been a busy week with lots of data points. By most accounts, the news has all been bad and yet the market continues to rally. It has been a case of the news being less bad than the Armageddon many had predicted/expected. As widely anticipated, the Fed raised rates another 75 basis points. The announcement was largely a non-event and the market liked that. Chairman Powell perhaps indicated a little more dovish stance raising the possibility that the next Fed meeting (September) may see a pause in rates or a return to a 50 or 25 basis point hike instead of the more aggressive 75 basis point hikes of the last two meetings. Tech behemoths Apple and Amazon both reported results yesterday and while results were much worse than last year were better than expected. The results showed that consumers are still spending even in the midst of record inflation and a slowing economy. Wednesday saw a 2nd quarter reading of negative GDP growth indicating a widely held reading that the US has entered into a recession. Politicians will argue whether or not that recession measure is valid but the definition of recession or whether or not we are currently in one is largely inconsequential. The fact is that the US economy is contracting and that is not good. Though company earnings have been mostly bad they have been less bad than many had expected and guidance going forward has been better than many had feared. The result has been a market rally that most did not expect going into earnings season. Spending in Congress is also playing a part in the recent rally as Congress passed the $250 billion Chips Bill and Joe Manchin indicated support for another $430 billion in spending. The latter bill still has to get through both the Senate and the House, but Manchin's support is one fewer roadblock to that end. While the market loves government spending, the bills will only add to inflation pressures in the future. We will have to see how it all plays out. The wall of worry is fully intact, and the market has continued climbing. As mentioned in prior notes, bear market bounces can be exciting and look like the start of a new bull market. It is still too early to declare the bear dead, but things are markedly better this month than last! We made no changes to our portfolios this week but are close to adding a few positions should the market hold onto the recent gains. The next significant pullback will be very instructive. Hoping that your summer vacations are taking you someplace fun. Have a great weekend.