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BAM MARKET NOTE

JULY 8, 2022

It has been a relatively quiet holiday shortened week. The S&P has bounced a little and is back testing the 3900 level and the recent late June peaks. It will take a convincing and sustained break above this level to get us interested in playing any bounce. Should this level hold, significant resistance lies ahead with the 50-day moving average first and then the 4000 level. Beyond that, a break above 4175 or so would be the first indication that the bear market has run its course. Count me skeptical that we will get to that point, but I have been wrong before and will be wrong again. Regardless, to this point, this is nothing but a bear market oversold bounce that is well within the bounds of normal. Watching and waiting and we would advise the same.

Like the S&P, the Nasdaq as also at a critical level. It is right up against resistance (both the 50-day moving average and prior support/resistance). Clearing the 300-310 level would add much more conviction to the recent bounce. With earnings season beginning next week, it will take positive earnings and forecasts to add another leg up.

Our Point

While the markets have drifted up a bit this week, the story remains much the same. The Fed tightening (interest rates and quantitatively) is a huge headwind for the market to weather. Throw in what is expected to be weaker earnings and cautionary forecasts and it becomes much more than a headwind! Absent a 180 from the Fed or a cease fire in Ukraine, it is hard to imagine the market continuing to go up much further than the above resistance levels. While nimble traders may want to play the bounces, most investors would be well served by holding what they have and exercising patience. If a bottom is being formed, then it will likely take some backing and filling before a new bull market emerges. More likely we are headed back to the lows (or lower) over the coming weeks or months. July is often the strongest of the summer months but August and September loom and are historically among the worst performing months. Earnings season will be telling and will be indicative of how pervasive inflation is hitting companies. Despite the Washington rhetoric, there are only so many costs that can be passed onto consumers and company earnings will suffer due to higher input costs. Today's positive jobs report further cemented the Fed's likely 75 basis point hike later this month. Increased employment is one signal that the Fed rate hikes are not slowing down the economy. On the flip side, a reversal in commodity prices indicates that inflation is waning and may have peaked. We'll know soon as more inflation data is due out over the coming weeks. Regardless, peak inflation is not the same as low inflation and we still have a long way to go before inflation is tamed. Many of the large banks will start the earnings parade next week with earnings starting in earnest the following week. If this is more than a bear market bounce, then we will know soon after earnings start rolling in. At present we are very content to wait and see what develops and keep our defensive and conservative portfolios. We made no changes to our portfolios this week and will wait for more clarity and confirmation. Have a great hot and humid weekend.