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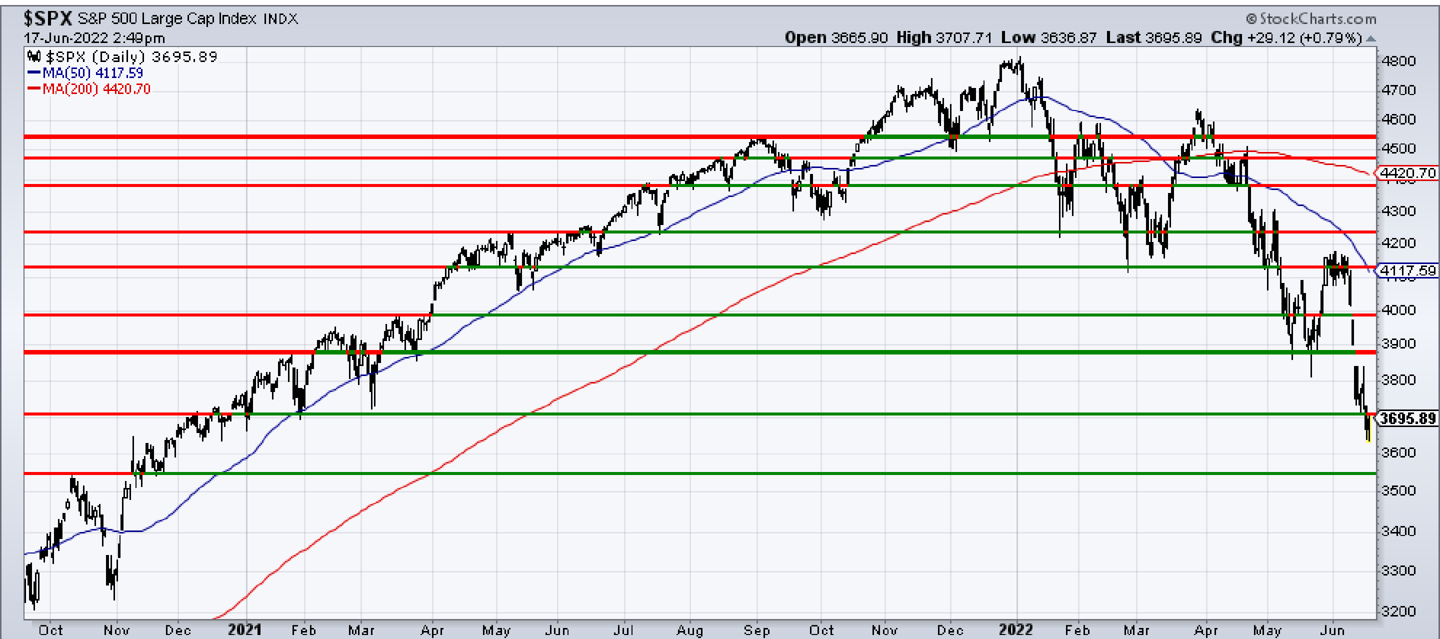
BAM MARKET NOTE

June 17, 2022



Our Point

The Fed took more definitive action this week as they hiked interest rates by 75-basis points. It was the largest increase in almost 30 years, and many argue it should have been greater. Unfortunately, the Fed continues to look reactive and not proactive. As we have stated in these notes for several months, the Fed should have begun their rate hiking cycle last year when the economy was on more stable footing. As it is, the Fed is now hiking rates in a slowing and weakening economy. That is never a good thing and recession is nearly a foregone conclusion. Housing has begun to slow as the interest rate hikes have seen the 30-year mortgage rates double from January. A Fed induced recession may be the only thing left to tame inflation. The depth and duration of any recession is yet to be determined but the Fed helped themselves by hiking. It may be too little, too late. Expectations are that another 75-basis point hike will be announced at the July meeting. Many argued passionately that the Fed needed to raise rates 1 percent or more at this last meeting. Inflation continues to be the driver and the Fed is behind the curve and trying to catch up. The market rallied strongly on Wednesday after the rate announcement. However, as is often the case, the initial knee jerk reaction is often reversed the next day. That was certainly the case this week as Wednesday's 1.5% rally was eclipsed by Thursday's 3.25% decline. Over the last 7 trading days, the S&P is down nearly 12%! We are getting a bounce today, but it is disappointing considering the depth of the losses over the last week and ½. The S&P has now given up all of its 2021 gains and is beginning to eat away at the 2020 gains. It is never a good sign when I have to add support zones on the above chart with each passing week. The S&P, Nasdaq are Russell 2000 are now down 23%, 32% and 26% year to date. Despite the big losses this year, the decline has been orderly and the VIX (though slightly elevated) has not spiked to areas where a bottom might be expected. Volume has remained consistent and not particularly elevated. The recent losses do not appear to represent the end of the selling and deeper losses are likely. That said, the market is very oversold in the near-term, and a rally should materialize over the coming days. We expect that the rally will generate some excitement but that it will again be nothing more than a bear market rally. The market could rally back to the June highs (some 12%) without the trend changing. We suspect that the rally comes short of that and retraces 50-60% of the recent decline. The 3900 level should provide significant resistance. For those that have not heeded our advice thus far, you should use any rally to adjust your portfolio to your risk tolerance. We sold one small position in our portfolios this week and remain defensively positioned. We are considering adding a small equity position to capture some gains on the expected rally, but it will likely be a very short-term holding as we don't believe any rally will hold. This market remains very dangerous and only the nimblest of traders should play in it. It will be a big weekend for me as tomorrow marks 34 years of marriage to my high-school prom date and my 30th Father's Day! Both seem like yesterday (other than the weakening back and expanding waistline), and I count myself very blessed. Here's hoping your weekend is filled with lots of fun. Happy Father's Day to all the dads.

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