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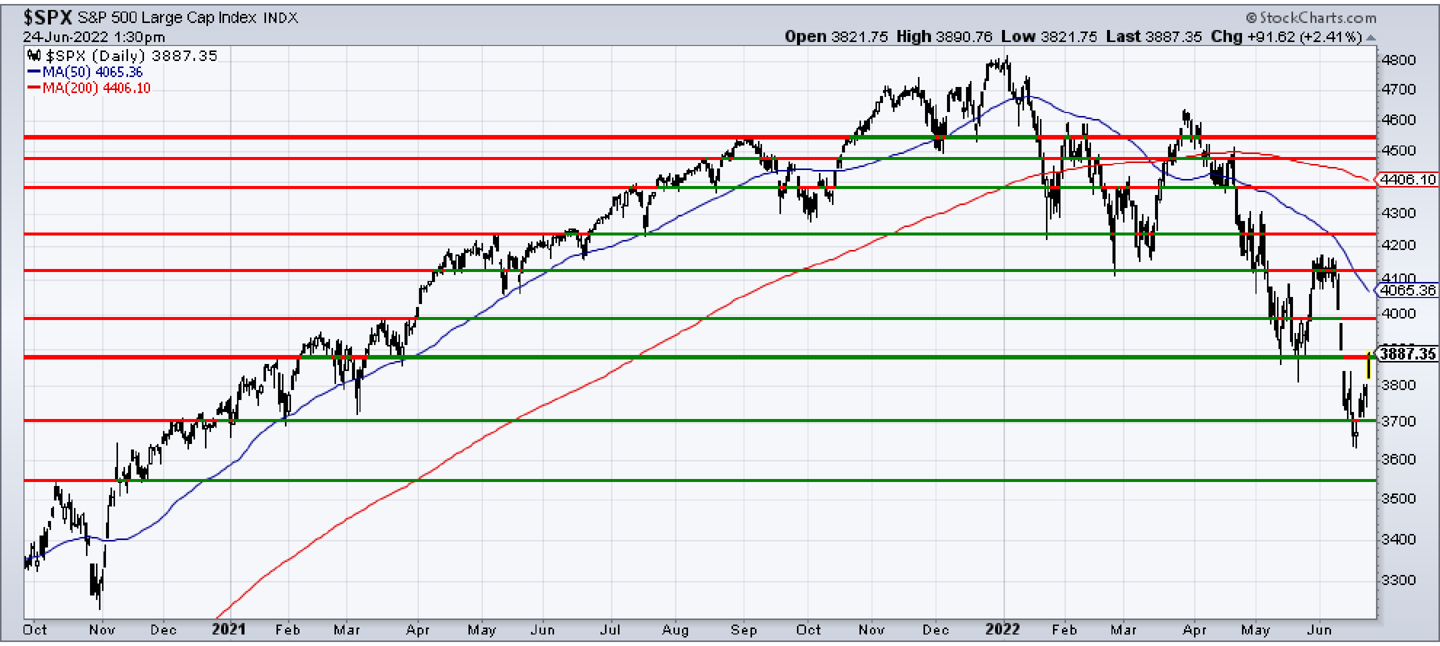
BAM MARKET NOTE

JUNE 24, 2022



Our Point

As expected, and mentioned in last week's note, the market has rallied strongly this week. For the week, the S&P is up over a little over 5.5% as of this writing. It has been a good week but context matters. The decline over the last 2 weeks was over 12% so we have recovered less than half of the losses over the last 2 weeks. Bear market rallies are often strong and can generate lots of excitement that the bottom is in. Perhaps it is but we have our doubts. There are major resistance levels at both the 3900 and 4000 levels. The S&P is testing the 3900 level today. While it is possible that the rally continues, both 3900 and 4000 mark logical places for the rally to stall. Chairman Powell provided some fuel for the rally with his testimony before Congress. In his testimony, he reiterated the Fed's intention to fight inflation while also downplaying the risk of recession. Chairman Powell reassured senators that the economy was on sound footing and offered optimism about the future. In all honesty, what else could he say? Forgive me if I wonder if Chairman Powell is being completely honest or if he and the Fed have a handle on inflation that as recent as a few months ago was "transitory" in their eyes. As we have discussed in many prior notes, the Fed has become much more political over the last 20 years. It's dual mandate to maximize employment and stabilize prices (manage inflation/deflation) has morphed into supporting stock prices. The result has been a bubble born of a low interest rate policy and quantitative easing. The flood of liquidity found its way into the stock market fueling the rally that we saw from 2009-2021. With the rise in inflation, the Fed has been forced to reverse its 12-year policy of propping up the markets. The result has been the natural effect of the market correcting back to rational valuations. Are we at a rational valuation yet? Will the Fed continue to exercise its mandate to fight inflation, or will it let politics rule the day? We have our doubts about both. We continue to believe that there is more pain ahead and that the current rally is nothing more than a bear market rally that will fizzle out in the next week or two. We have been wrong before and we will be wrong again, but the weight of data suggests that we have not yet reached a bottom in this bear market. With mid-term elections in November, the cynic in me feels that the Fed may stop short of fighting inflation just before the fall elections. The result may well be a rally in the fourth quarter. Until then, we believe it will be tough sledding. Last week, we mentioned that we were considering buying a small equity position to take advantage of the expected rally. We did just that on Friday. We also mentioned that it would likely be a short-term holding and it was as we have now liquidated that position with a nice gain. Our portfolios remain mostly in cash, but we may use this rally to further increase our cash position and remove even more risk from our portfolios. We continue to encourage our readers to do the same and adjust their holdings to their level of risk tolerance. Earnings will start rolling out in the next few weeks and they are likely to be disappointing. Despite the green screens this week, it remains a dangerous and risky market. Have a great weekend wherever it finds you.