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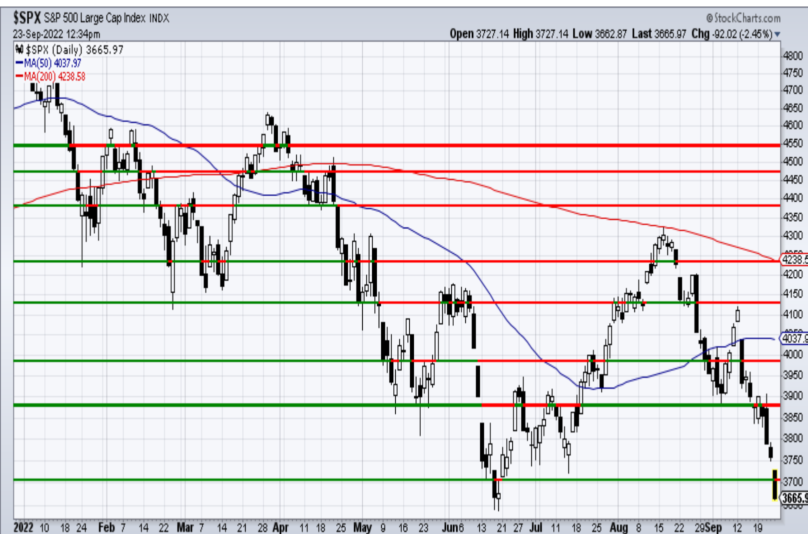
BAM MARKET NOTE

September 23, 2022



We mentioned in our last note that we expected a bounce in the market this week. We got a minor bounce on Monday but selling quickly returned. It was not the bounce we expected, and the selling only intensified this week. For the week, the S&P looks to be down another 5-6%. Since the bear market rally peaked on August 16th, the S&P is down over 15% and has now given up all of its gains from last year. The June summer lows are being tested today. If these fail to hold, then things could get increasingly nasty. As we noted last week, the last part of a bear market is often the most violent with much of the losses coming in the latter part of the bear market. We could be in store for that over the coming weeks/months. It is not a time to be bottom picking and extreme caution remains the best investing strategy in the current environment.

In our note of September 9th, we mentioned that the energy sector was an area that had piqued our interest and we were watching it closely for opportunity. There is an opportunity coming as the energy sector is getting hammered today – with XLE down over 7% at last reading. In our opinion, it is still too early to get into this volatile sector, but the opportunity is much better today than it was 2 weeks ago! We will keep watching energy as we believe it will be among the winners once things shake out a bit more.

Our Point

The Fed met again this week and to nobody's surprise raised interest rates another 75 basis points. That makes for three 75 basis point hikes in a row – the first time that has been done since the early 80's. With inflation continuing to rage, the odds of a Fed soft landing are decreasing daily. On Wednesday, the Fed reiterated its hawkish stance, and the market was, once again, surprised that the Fed did not begin to pivot to a more dovish demeanor. We have been saying in these pages for months that inflation will be stubborn and that the Fed will be forced to raise rates for longer than many expect. With the next Fed meeting just days away from the mid-term election, it will be interesting to see how political the Fed has become. We will have new inflation data in the meantime, but if the Fed fails to raise rates in early November or suddenly becomes less hawkish, it will be a sign that politics have further invaded another "independent" organization. We shall see. Next week brings a slew of housing data which is sure to show the economy slowing. With mortgage rates at fifteen-year highs, why would we expect anything less? As mentioned above, the S&P is nearing the lows of June and that level has now become a line in the sand for the bulls. A breach below that level would raise the specter of much greater losses over the near-term. Hopefully, non-client readers have heeded the advice of this market note and reduced risk. As for our portfolios, we have been defensive for several weeks and the recent losses have done no harm to our client portfolios. In fact, many of our portfolios have posted small gains over the recent weeks and we remain very comfortable with our defensive posture. With the markets oversold and getting more oversold by the day, a reflexive rally will not be unexpected. We would caution investors that any rally should be taken as an opportunity to reduce risk and not as a reason to get more bullish. After the steep losses of the last 4 weeks, a rebound can have the look and feel of something more than a bear market rally. Resist the urge to jump all in. Generational opportunities are brewing but we are not there yet. Patience will be rewarded for those that have their capital intact. With fall officially starting a few days ago, the cooler weather has been a welcome change. Get out and enjoy the sun this weekend.

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