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BAM MARKET NOTE

OCTOBER 14, 2022

As we mentioned last week, the market continues to be oversold and due for a sharp counter-trend rally of some magnitude and duration. Yesterday **may** have been the start of that rally. After breaking support at the 3550 level on the dismal CPI numbers, the market rocketed back up through resistance. The intraday rally was nothing short of impressive as the bulls made their stand. The S&P is currently giving back some of yesterday's gains so how we finish today and begin next week will shed much light on whether the counter-trend rally has started or if we are just seeing the volatility present in dangerous markets. Caution still reigns and we would not recommend making any big bets in the current environment.

The VIX remains elevated and in the danger zone above 30. Yesterday's turnaround did little to allay market fears as the VIX fell a little but only to levels of the end of September. Today's sell-off has the VIX back up to 33. The market is not convinced that yesterday's gains were anything more than a blip in an otherwise down-trending market.

Our Point

Yesterday started much like every morning for me. I was in the office at 7 am checking the futures and waiting for the release of the much-anticipated CPI report at 7:30. The release came, and it disappointed the market with an increase in inflation that continues to embarrass the pundits that keep calling for peak inflation. A stopped clock is right twice a day so eventually the pundits will be right - but not right now. The release turned a positive market into a highly negative one in a matter of minutes. When the opening bell sounded, the markets were down 2% or more erasing the early morning gain shown in the futures. It was a dramatic shift. I had a dentist appointment that kept me out of the office from 9:30 until 11 and when I checked the markets, I was shocked to see that the early morning losses had completely reversed and turned positive. The gains continued throughout the day and the result was a massive reversal. From up 1% to down 2% and back to up 2% all in a matter of 3 hours was enough to give even the most hardened market follower heart-burn! At this point, it is hard to pin down a reason for the reversal. Sometimes you know immediately, sometimes a day or two later and sometimes you just have to chalk it up to the unpredictability of the markets. Or it might have been my dental visit. In any event, we can spend time trying to figure out what happened but that is largely an educational exercise that has little effect on investment decisions. The why doesn't matter nearly as much as the charts – price is never wrong. To this point, today's lack of follow through is disappointing for the bulls. A break back below the most recent support/resistance at 3630 would negate much of yesterday's excitement. The rest of today and early next week will determine whether the long-awaited bear market rally has started or if we are in for more pain before some relief. Several large banks started the earnings parade this morning with mixed results at best. The markets were not impressed. Earnings will start in earnest over the next two weeks and may prove to be a catalyst for either a rally or another leg down. We suspect earnings will disappoint but that is largely baked in, and it will depend on how disappointing they are. There will be lots of information to digest and likely more volatility. Despite the impressiveness of yesterday's rally, there remain lots of crosscurrents. We made no changes to our portfolios and remain comfortably defensively positioned. This weekend marks perhaps the biggest game in Knoxville in the last 20 years. The Vols are set to take on the Crimson Tide and I haven't been this optimistic since some guy named Saban was named coach. Hopefully, it is a Big Orange weekend. Enjoy yours and Go Vols.