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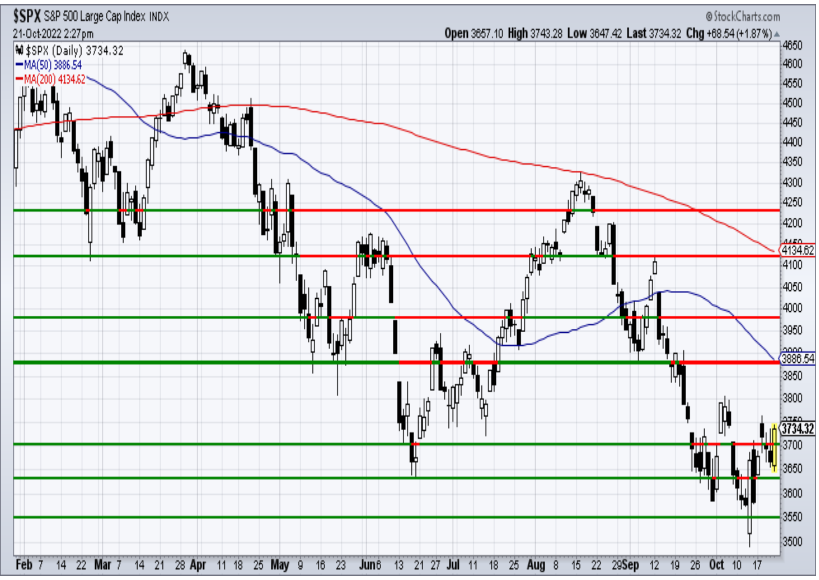
BAM MARKET NOTE

OCTOBER 21, 2022



The S&P has added to its gains from last week with another week of positive action. For the week, the S&P looks to be up close to 4% though we haven't closed yet and in today's environment anything could change between now and the close of the week. It has been another volatile week. 1% market moves have become the norm. The daily volatility has something for both the bulls and the bears. The bulls will argue that the market is finding a bottom while the bears will argue that the volatility portends nervousness and short covering before a retest of the lows. Could both be correct? With the market oversold on a short-term basis there is an argument that markets could see a significant rally over the coming weeks. However, we would caution that any rally is likely short-lived and lower prices are more likely than not. It doesn't appear the bear market is over.

We haven't shared a chart of Europe on these pages in some time so we will take a look today. Europe looks even more dismal than the US. As bad as the US economy has been, Europe is worse. While the US economy drives the world economy in many respects, it is not immune to problems overseas. There is little doubt that continued issues in Europe will have a negative effect on the US economy.

Our Point

The US markets have rallied nicely over the last couple of weeks, but we would continue to caution investors not to get too excited. Many uncertainties and issues remain with the US and world economies and any rally will likely fail over the coming weeks. That is not to say that any rallies might not look inviting. However, it will take a nimble trader to capitalize on current strength before weakness re-emerges. Earnings season is just getting started and, to this point, current earnings have been positive (albeit from lowered expectations). Forward guidance has been tempered. The S&P will face stiff resistance at the 3800 level and even greater resistance around 3900. We would not be surprised to see the current strength pause at one of these levels over the coming weeks. Mid-term elections are right around the corner and polls are starting to favor the Republicans taking one or both the Senate and the House. Generally, the markets prefer a split government as it provides more certainty that neither party can go too far in one direction. The current rally can, in part, be explained by increasing certainty that split government will be the result come November 8th. The short-term oversold nature of the market can explain much of the rest of the rally. We'll see if this current rally has legs with the likes of Google, Microsoft, Apple, Facebook, Amazon, et al all reporting next week. If the market has staying power due to earnings we will know next week. We made no changes to our current portfolio holdings this week though we are exploring getting a tad less defensive should the market continue to strengthen. Any changes to our portfolios will likely be short-lived as we continue to expect lower prices over the coming months. The market remains tenuous, and, in our view, caution remains the key ingredient to an effective and responsible portfolio. Better times are coming but we are likely to have more bumps before the all clear is signaled. Speaking of better times – how about them Vols!?! With apologies to our Alabama friends and clients, it has been a long time coming – 15 years to be exact! What a game! I have seen countless UT football games over my lifetime, and I cannot remember a better one. Last weekend will be hard to beat but I am going to try. Hope you try too!