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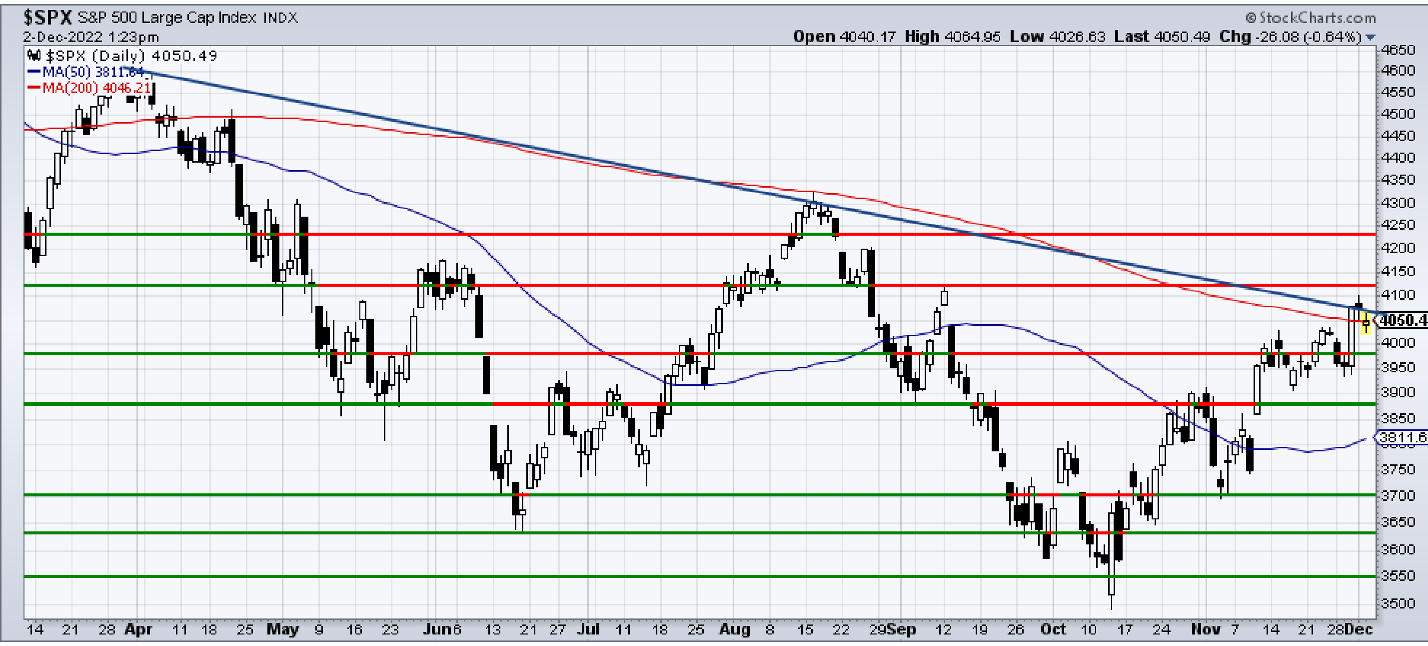
# BAM MARKET NOTE

**DECEMBER 2, 2022**




## Our Point

As we have mentioned over the last couple of weeks, the convergence of the 200-day moving average and the down trend line that began earlier this year were a logical place for the current rally to pause and, perhaps, turn back down. With Wednesday's market rally on Chairman Powell's comments, we are now at that point. The big question will be if the market has any remaining enthusiasm for more gains. Has Santa come early? As mentioned in prior notes, we are in the most favorable time of the year. Often November through April are among the best performing months. The tailwinds of being in this favorable period have certainly helped this current rally. Wednesday's comments by Fed Chairman Powell added fuel to the fire as many on Wall Street perceived the comments as more dovish and led many to believe that the Fed was closer to ending (or at least lessening) their interest rate hikes. The Fed seeks to slow the pace of inflation by slowing the economy through tighter financial conditions. These tighter financial conditions come in the form of higher borrowing costs, lower stock prices and a stronger dollar. The rally in stock prices may very well have frustrated Chairman Powell as higher stock prices makes his job of reducing inflation that much more difficult. The December 13 CPI report and the Fed's next decision on interest rates out the following day will determine whether this market has more room to run or if a quick decline takes hold to end the year. The market is now anticipating a lower rate increase of 50 basis points vs the 75 basis points moves earlier this year. If Chairman Powell feels like the markets are getting ahead of themselves and working against his desire to reduce inflation, he may very well shift to a more hawkish tone to quell the market excitement. The Fed is not in an envious position. If it curbs interest rates too soon, then inflation could ramp back up again and be even more difficult to tame. Raise rates too much and create a deep recession. It will be very interesting to see the route that Chairman Powell and the rest of the Fed takes. One thing that has not responded to the prior interest rate hikes is the labor market. This morning's job report exceeded expectations and the labor market remains relatively strong. There certainly seems to be a number of open jobs – as evidenced by the continued shortage of workers in a number of fields. The market responded to the strong jobs report this morning with a modest (but not insignificant) decline to this point. The decline brings the market back below the down trend line and right at the 200-day moving average. To say we are at another inflection point is an understatement. A break above current levels would lend credence to the argument that the worst is behind us and would set up a rally to the August highs or beyond. However, a failure in the rally to continue could easily lead to a significant decline from current levels. The markets may very well trade within a narrow band over the next two weeks as it awaits further inflation data and the next major Fed comments. We made a couple of small changes to our portfolios this week. We are a little less cautious but remain nervous that the current market gains are a strong bear market rally and not the start of a new bull market. That will change should we hold above the downtrend line and 200-day moving average. If that happens over the coming days/weeks, we will begin to get more and more aggressive in our portfolio construction. 23 more shopping days until Santa comes – enjoy the traffic and have a great weekend!