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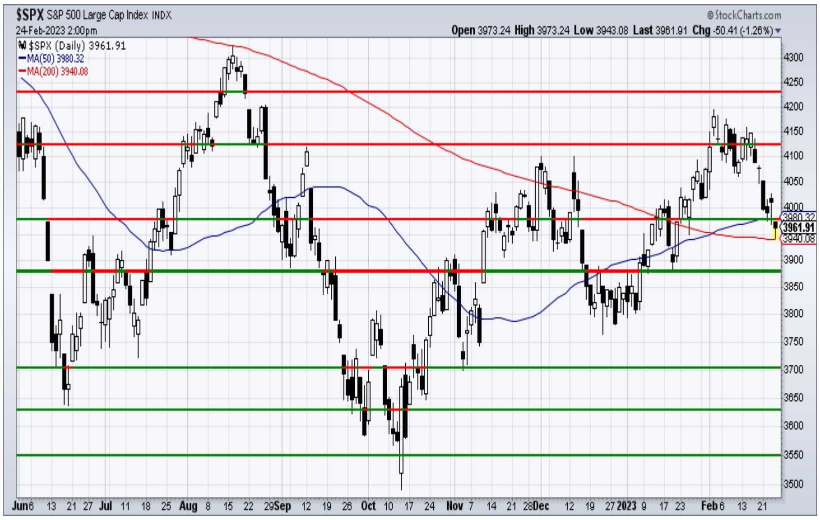
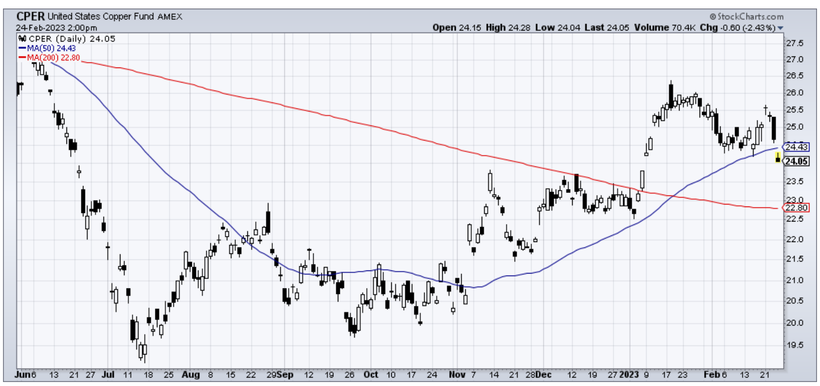
BAM MARKET NOTE

FEBRUARY 24, 2023



The correction that began earlier this month picked up more steam this week as the S&P has declined another 3% as of this writing. The major area of support mentioned last week (the area where support and the 50-day moving average met) just below the 4000 level was breached this morning. The bulls will need to retake this level later today or early next week to salvage any hope that the up-trend that began in January remains valid. The odds are stacked against the bulls and our guess is that a new down-trend has begun. The very important 200 day moving average was tested this morning and held. A break below this important support level will provide more fuel for the down trend to continue. Risk is elevated and caution is warranted.



Copper is viewed by many as a leading indicator for the world economy. The shiny metal has many applications and is used in nearly all sectors of the world economy. As you can see from the chart, copper bottomed in July, rebounded, corrected, rebounded again before trading sideways through the remainder of 2022. It rocketed up in January but peaked mid-month and has been correcting since then. The selling accelerated this week which does not bode well for the rest of the market. If the bulls make a stand as referenced above, we may get some early indications from this chart.

Our Point

The spate of bad economic news from last week carried on into this week. Earlier this week we got a downward revision to 4th quarter GDP indicating the economy is not as strong as some thought. Yesterday brought another reminder that the labor market remains tight with jobless claims falling slightly. However, the big number came this morning as the personal consumption expenditures (PCE) report came in much hotter than expected. The PCE (like the CPI and PPI) is viewed very closely by the Fed. The surprising and sharp increase in the PCE is indicative of inflation being sticky (best case) or actually starting to rise again (worst case). In any event, the week's economic reports point to a more hawkish Federal Reserve and substantially increases the odds of a hard landing (recession). The release of the Fed minutes from their last meeting did nothing to quell the fears of the Fed raising too much and too long. The market responded immediately to the PCE report this morning with the indices all falling 1-2%. As of now, we are well off of the lows of this morning. What we do in the last couple of hours of trading today will be an indication of where we are heading in the short term. With major support on the S&P just below current levels, we will hopefully have greater confidence in the near-term direction as early as next week. Speaking of next week, there will be a number of Fed officials speaking over the coming days. With the next official meeting a month away, the speeches could give some early indication of any Fed policy shifts. With the deluge of negative inflation reports over the last two weeks, the chances of a 50-basis point hike next month has risen dramatically. Two weeks ago, the chances of a 50-basis point hike was close to 0. It has risen to 30%. Similarly, the terminal rate (the rate when the Fed pauses) was widely expected to be between 5 and 5.25% (it is currently 4.5% - 4.75%). Expectations have risen to 5.5% - 5.75%. Market expectations (and prices) have shifted, and we are responding accordingly. We liquidated a few positions this week and will continue to sell positions as they meet our stops. The safety of money markets is not a bad place to hide in times of uncertainty and distress. Have a great weekend with the ones you love.