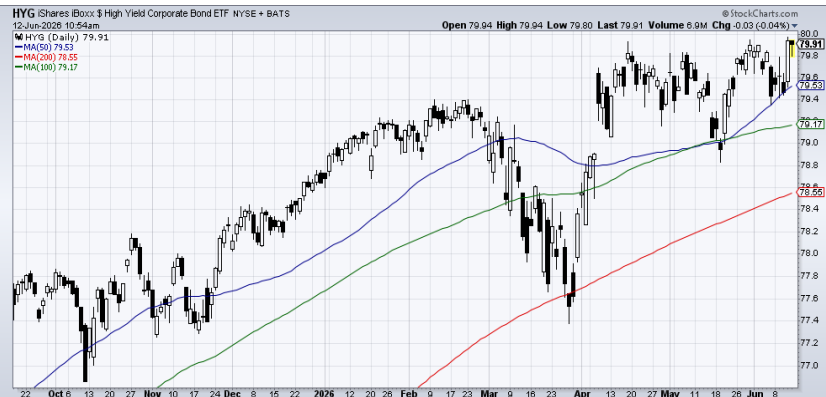


The S&P suffered a correction of 4.5% before bouncing yesterday on news of peace in the Middle East. As we have noted, the correction was not unexpected nor severe enough to change the overriding trend of the market. The first level of mild support failed last Friday but the second level held after a one-day break. The 50-day moving average at 7247 remains the greatest level of support that the bulls need to defend. It is too early to call this correction over, but yesterday's strength and today's follow-through (to this point) is encouraging. The near-term direction will depend on the situation with Iran and the Strait of Hormuz.



Despite all the market noise over the last couple of weeks, high yield bonds have shown little concern. While they did decline back to their rising 50-day moving average, support held and they are back at their highs. This is an indication that the recent market weakness was more profit-taking and reallocations than it was an economic concern. The quick bounce back is an early sign that the correction may have run its course.

Our Point

As we mentioned last week, we suspected that some of the weakness in the tech sector was due to investors selling positions to generate cash to participate in today's SpaceX IPO. The demand for the IPO is astounding, and it will be the largest IPO in history. Trading just began for SpaceX shares, and it has opened up 15% from the IPO price. However, the valuation of the company does not match its profitability, so we expect the shares to fall over the coming months. I would not bet against Elon Musk but do believe investors wanting to invest would be better served by waiting for the dust of the IPO to settle. Open Ai and Anthropic will have their IPOs in the coming months. Google just completed a secondary offering and Meta, Microsoft and Amazon are all considering doing the same to fund their AI infrastructure buildouts. The money to fund all these offerings has to come from somewhere so we will likely see more volatility over the coming weeks/months as liquidity constraints in the market work themselves out. The IPOs and offerings will be a headwind for the markets to overcome. Speaking of headwinds, inflation data continues to show elevated inflation. Despite the numbers coming in at expectation, this week's CPI and PPI both showed inflation growing. To this point, the markets are largely shrugging off the increased inflation as they continue to believe that Iran will be settled and oil prices and inflation will normalize. Yesterday's large market rally was on the hope of yet another announcement that Iran was back to the negotiating table and that an agreement to settle the war was at hand. We have been down this road more than a few times over the last several weeks so call me skeptical. Even if a deal is not reached over the weekend as the White House suggests, the rally yesterday on the hope of a deal did arrest the downward momentum and gave the bears something to think about. We are not likely to see a significant sell-off should talks fall. The give and take between bull and bear has been restored with neither holding an advantage at present. Next week will be new Chairman Warsh's first FOMC meeting and will be widely watched as the market will get a sense of his thinking as the new Chair. There will not be a change in interest rates at the meeting, but cues will be taken as he takes questions from the podium at the post-meeting press conference. It could be a very consequential press conference. We'll be watching. We made no significant changes to our holdings this week and continue to hold a small amount of cash that we will look to invest as the market dictates. Have a great weekend wherever it finds you.

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