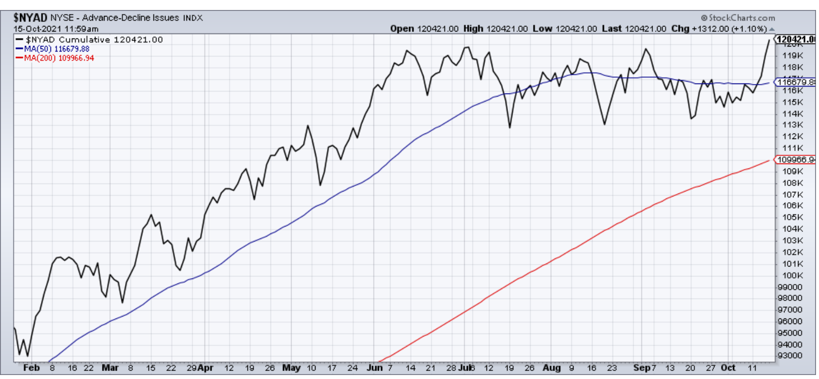
BILLS ASSET MANAGEMENT | **BO BILLS** (615) 371-5928
SAM BILLS (865) 525-1329
CARTER BILLS (615) 585-6867

BAM MARKET NOTE

OCTOBER 15, 2021

And just like that it was over. Maybe. The weakness that we have seen since the end of August gave way this week to renewed buying. The S&P had broken significant support levels on the way down, but this week hurtled both the bottom of the trading range at the 4370 level and the 50-day moving average this morning. We'll see if the gains hold throughout the day. Importantly, the current rally halted right at the top of the range at the 4470 level. The short-term downtrend that started on 9/2 has been violated and another push upward from current levels would put the highs back in sight. We still see some choppy trading throughout the rest of the month before a strong finish to the year. We would have liked to have seen a little more weakness to set up a 4th quarter rally, but Mr. Market does not always comply! Despite this week's rally, risk continues to be elevated and caution should still be taken.



Market breadth (the measure of the number of stocks going up vs the number of stocks going down) has been a concern for many traders for several months. One such measure of breadth is the NY Stock Exchange Advance-Decline Index. As you can see, breadth has been in a trading range since June but has just now broken to new highs. The wider participation of stocks is a welcome development and is one reason to believe that the recent weakness may have run its course.

Our Point

This morning's upbeat retail sales report as well as continued good earnings from a host of banks has the market up for the third straight day. Virtually everything was in the green yesterday, and the trend is continuing today. Bank earnings have been very good with Morgan Stanley, Goldman Sachs, Bank of America, CitiGroup, and Wells Fargo all surging upward after their earnings releases. It has been a good start to the third quarter earnings and the parade will continue next week with the likes of Tesla, Johnson and Johnson, Netflix, and Intel to name a few. While the earnings releases are backward looking, investors are much more interested in forward guidance and where companies see their business over the coming quarters. Market traders will have lots to parse over the coming few weeks as earnings continue to be released. Additionally, all eyes will continue to watch the Fed. While not a surety, it continues to look like the Fed will announce the tapering of their asset purchases at its November meeting scheduled for the 2nd and 3rd. The actual tapering could happen as early as mid-November or mid-December. Though widely expected, prior announcements of tapering have been met with selling on Wall Street so we will see if the current tapering results in any temper tantrums. The upbeat retail sales numbers were a bit of a surprise with the continuing supply chain issues and inflation figures that remain elevated. With warnings that Santa won't be able to get Christmas gifts to the stores, retail sales could see a significant drop in the coming months. It will be an interesting next 3 weeks as there will be lots for the market to digest. Risk remains elevated though less so than it was last week. We will know more about the staying power of the current rally next week when we see what the next down day looks like. We made no changes to our portfolios this week but could see some changes next week if the market holds onto the recent gains. It is a big weekend for Vols and Titans fans as Lane Kiffin makes his return to Neyland and Monday Night Football returns to Nashville. Here's hoping for a pair of victories come Tuesday morning. Have a great weekend.