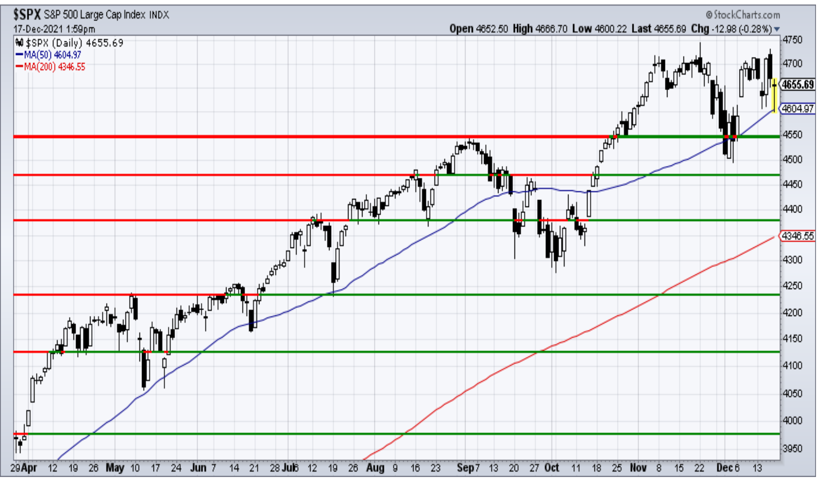
BILLS ASSET MANAGEMENT

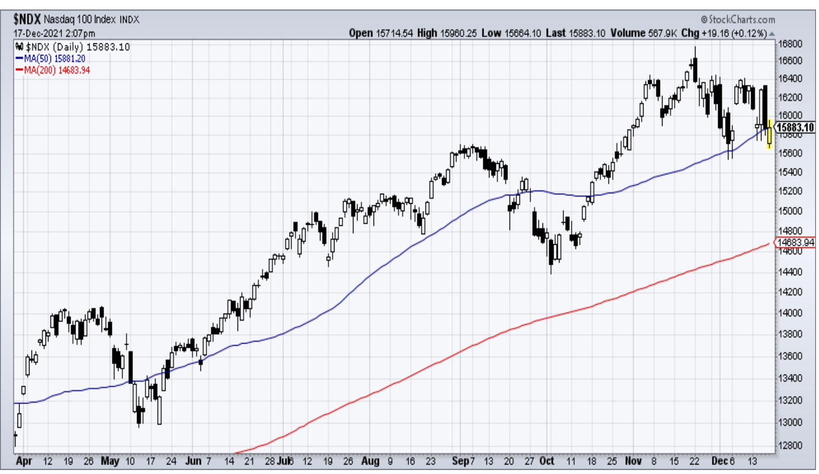
BAM MARKET NOTE

DECEMBER 17, 2021

BO BILLS (615) 371-5928
SAM BILLS (865) 525-1329
CARTER BILLS (615) 585-6867



Market volatility has increased markedly over the last few weeks. However, the large cap S&P 500 remains largely unscathed. The widely followed index remains very close to its highs for the year. While other areas of the market have suffered with the recent weakness, the S&P marches on and has held up very well. Importantly, this morning the S&P bounced off of its 50-day moving average and remains in the broad trading range that began back in October. As long as support at the 4550 area holds, the weakness should continue to be used to reallocate capital to winning areas of the market. If support breaks, it will be time to re-evaluate!



While the S&P has remained relatively stable, the riskier side of the market has taken the brunt of the recent selling. Tech stocks (Nasdaq - shown) and small caps (Russell 2000 – not shown) have both declined much more than the largest 500 stocks (S&P 500). There definitely seems to be a flight to safety of the large caps. Importantly, however, there has not been a flight to safety of bonds as the 10-year treasury bonds have actually declined in the recent weakness. On the surface, this indicates a rotation to other stocks rather than a flight to the safety of bonds.

Our Point

To the surprise of virtually nobody, the Fed finally admitted that inflation is not transitory, and that monetary policy will be needed to fight the rise in prices. Chairman Powell did his best to calm the market when the December Fed meeting concluded on Wednesday of this week. At this point, the market was much more concerned with the dangers of inflation than the spigots of Fed money remaining open. The Fed indicated that it was accelerating its taper of asset purchases and was beginning to look at interest rates hikes mid-year 2022. The move was widely expected so the market's reaction was mostly muted though some buying took place Wednesday afternoon. Thursday and this morning saw some renewed selling as the market came to grips with what might be the end of the monetary punch bowl that has been at the party since 2009! 2022 could be a very interesting and dangerous market. However, there may be a little more life to this market before everyone heads for the exits. As we have stated for the last few weeks, we are in the traditionally strongest part of the year for the markets and many indices stand at important crossroads. The S&P remains relatively healthy. The Nasdaq, though weaker, remains above its 50-day moving average and is bouncing a little today despite weakness in the rest of the market. The Russell 2000 is testing its recent lows and is also bouncing today. Further weakness to the Russell or Nasdaq would throw up caution flags but as long as yesterday's lows hold, Santa may yet come to Wall and Broad. High-yields have not broken down and remain in a weak up-trend. Similarly, treasuries have not seen any spikes as investors appear willing to move to other areas of the market rather than into the safety of bonds. The accumulation of all the evidence appears to point to a correction rather than a shift from a bull to bear market. That will come (likely in 2022) but it doesn't appear that we are there yet. We haven't made changes to our portfolios, but further weakness will lead to multiple changes. With Christmas Eve falling on next Friday, we will be spending time with family but will be back for an end of the year note before New Years. Have a Merry Christmas and very Happy Holidays and may your time with family and friends be blessed.