BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JANUARY 28, 2022

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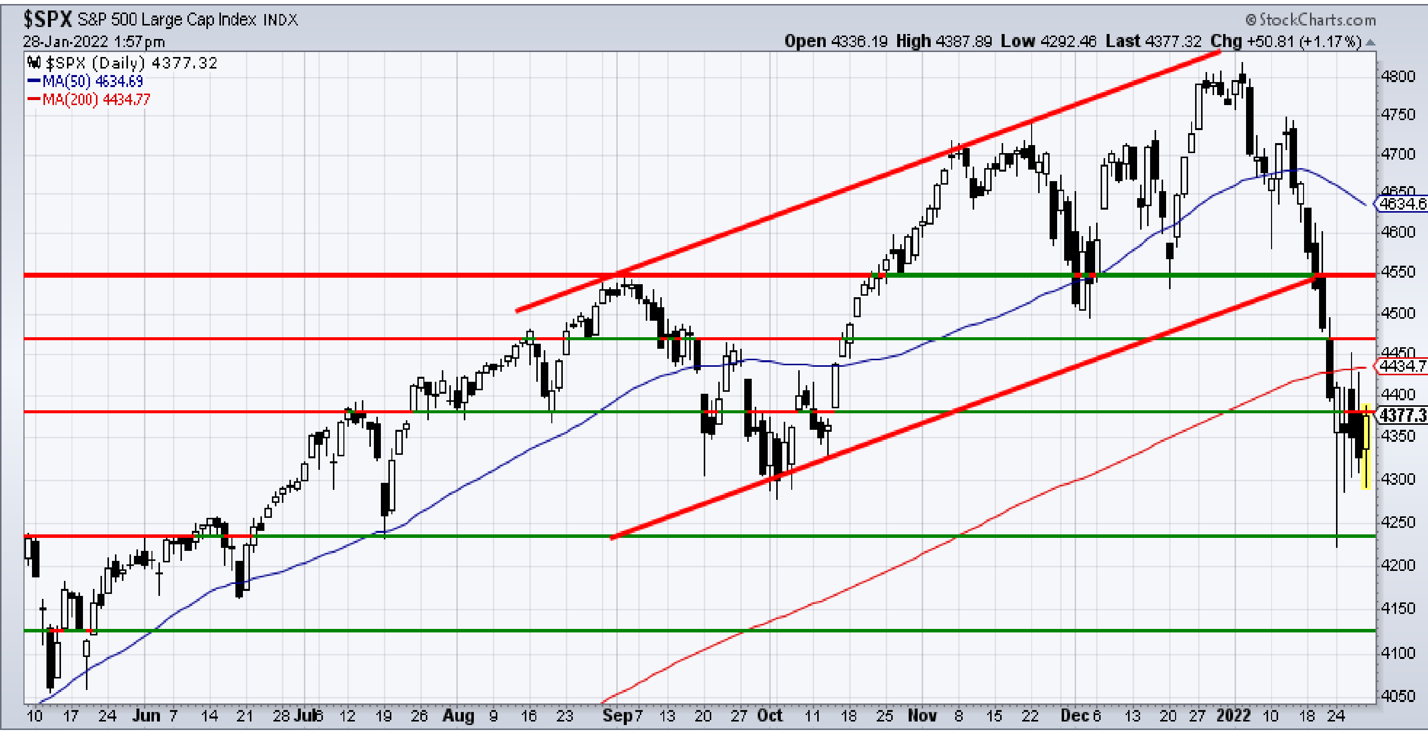

Our Point

Thankfully, January is coming to a close. January 2022 is shaping up to be the worst January in US market history. However, the rally today and what it does on Monday will determine if records are broken. Regardless, it has been a dismal month for the markets. As of this writing, the S&P is down 8.5% for the month and it is the strongest index! The Nasdaq and Russell 2000 are down over 13%. There are very few pockets of strength. As we mentioned last week, if the S&P were to break the 200-day moving average we would see a whoosh down. That happened on Monday and the whoosh took the index down to the 4200 support level. The market bounced there and has been volatile the rest of the week. You can see the market trying to get above the 4380 resistance level today. While that level is important, the real test will come at the 200-day moving average which has flattened at the 4435 area. All of the indices are oversold so we continue to expect a counter-trend rally soon – it may be starting today. What that counter-trend looks like will shed a lot of light on where we go next. Much technical damage has been done to the markets and it usually takes time to repair that damage (note that the original Covid swoon in 2020 did not take long to repair). The difference between 2020 and 2022 is the stance of the Federal Reserve. In 2020, the Fed stepped in and was extremely accommodative. However, as was indicated earlier this week, the Fed continues to anticipate a reduction and eventual halt to their asset buying and an increase in rates. The telegraphed start for interest rate lift off is set for the March meeting. Inflation data continues to press the Fed to stick with their plan, however, continued weakening of the markets will put more pressure on the Fed to reassess. As mentioned before, it is a fine needle to thread and the Fed often has difficulty threading that needle! We'll see if Chairman Powell has a knitter's touch – we have our doubts. The VIX has spiked over the last few weeks but not particularly commensurate with the losses we have faced and the pace with which they have come. The VIX is indicating no particular fear in the market which could be a sign that we have not seen the worst of this yet. The 4200 intraday low for the S&P becomes a very important marker on the downside. A retest of that level is likely and a failure to hold this level could send many scrambling for the exits. Our portfolios are in a risk-off mode, and we have lessened our equity exposure. Our holdings in low volatility funds have held up well and are actually up a little for the month. Those holdings could change so we are watching them closely. We will finish the market down a little but only a fraction of the market losses. Should the sell off continue, our losses should be minimal. Caution is in order and those investors with significant risk in the market should consider reducing exposure on any counter-trend rally. Enjoy your Titan-less weekend.