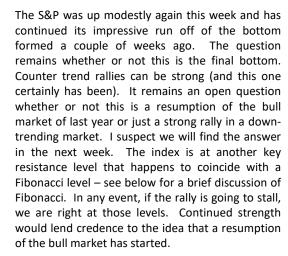
BILLS ASSET MANAGEMENT BAM MARKET NOTE

MARCH 25, 2022

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High yield bonds declined with the broader market and bounced at the same time as their equity counterparts. However, the bounce in high yields has been much less impressive and they remain in an undeniable down-trend. The failure of high yields to confirm the move in the equity markets is a strong reason to believe that the current rally is a counter-trend rally rather than a resumption of the bull market. High yields will need to gain growing strength to prove otherwise.

Our Point

The strong rallies in the major market indices have shaved off significant portions of the early 2022 losses. The S&P is now down a little over 5% year to date while the tech laden NASDAQ remains down over 9%. At the lowest levels of 2022 the S&P and NASDAQ were down 12.5% and 19.5% respectively. The S&P has recovered close to 60% of its 2022 losses and the NASDAQ has recovered a little over 50%. Interestingly, two of the expected Fibonacci recoveries in a down market are set at 50% and 61%. The Fibonacci sequence is a famous mathematical theory developed by Leonardo Bonacci in the 13th century. Over the years, traders have adapted the theory and applied it to developing support and resistance levels for stock movements. While there are many traders that have great belief in the efficacy of Fibonacci analysis, there are just as many on the skeptical side. Regardless, there are enough that hold onto the theory that makes it a reasonable analysis. In short, the analysis can become a self-fulfilling prophecy if enough traders consider it to be valid. In our current case, the 61.8% Fibonacci retracement sits right at our long-standing level of resistance as seen above. A further move to the upside would not only break through resistance but would also invalidate the Fibonacci 61.8% recovery and set the stage for a continuation of the current rally and a move back up to new highs. If there is a further break to the upside, there is not much resistance between current levels and the highs of late last year. Markets do not typically move in a straight line so we may get some weakness before a break above these levels are attempted. With the strong rally that started less than 2 weeks ago, the markets are bloated and overbought. Next week brings the end of the first quarter which can always yield surprising market action as mutual funds jockey positions for reporting purposes. We are very likely to see a significant pullback over the next two weeks as the overbought conditions correct. What happens after that time will determine if this rally is real or just a strong bounce in a down trending market. Despite the gains, we remain wary and made no significant changes to our portfolios. We did sell our holding in commodities after enjoying a strong two week run. Our portfolios remain defensively positioned and have held up better than the overall market. We continue to build a list of buy candidates when we believe risk has declined to an acceptable level. Have a great weekend.