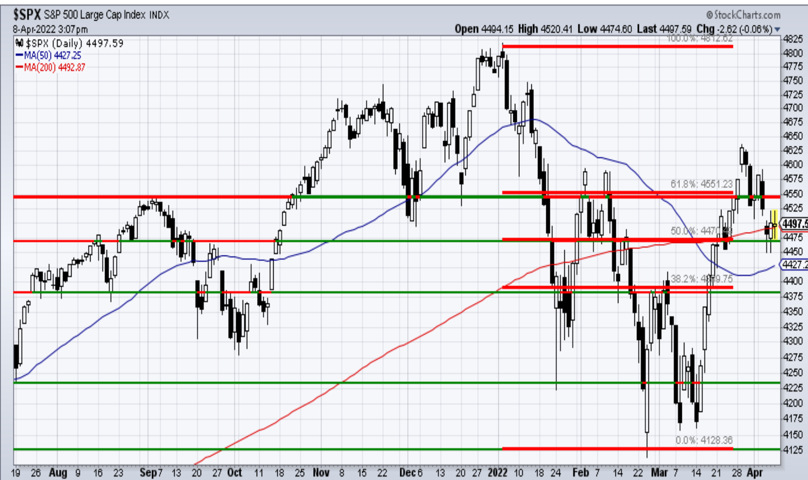
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

APRIL 8, 2022

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



When we spoke last week, the S&P was right at support, and it was time for the bulls to make a stand. Well, the bulls failed this time and support gave way to weakness. It is not all that surprising considering the strength of the late March move upward. With the positive bias from the end of the month and end of the quarter inflows behind us, the S&P will have to stand on its own. The 200-day moving average is illustrative of the push and pull of the bulls and bears as it has served as line in the sand over the last three trading sessions. One way or the other, earnings will likely provide the next big market move. Risk remains elevated and caution is warranted.

Like high yield bonds, semiconductors often have predictive power over the economy. With semiconductors being used in an ever-increasing number of consumer goods, the outlook (shown here as the price of the semiconductor index) can foretell of issues in the economy. Like the S&P, semiconductors surged in mid-March but have since given back most of the gains over the last week and a half. The sudden reversal may foretell a similar fate for the major indices over the coming weeks.

Our Point

Earnings will take center stage next week as many of the big banks release their quarterly earnings and forecasts for the upcoming quarters. The likes of Citigroup, JP Morgan, Wells Fargo, Morgan Stanley, Goldman Sachs, etc. all report mid next week. Financials have been a disappointment so far this year and have been relative underperformers in an already weak market. Next week could set the tone for the rest of earning season so all eyes will be on these releases. Fed minutes were released earlier this week and the indication was that the Fed will begin to reduce its balance sheet by $95 billion per month. The long-term experiment of buying bonds and providing liquidity to the markets looks to be ending. However, should the markets weaken significantly it is entirely possible that the Fed reverses course quickly. The Fed minutes also indicated significant discussion on the amount of the recent interest rate hike with several Fed governors pushing for a more aggressive 50 basis point hike rather than the 25 basis point hike that was announced. The minutes lead many to believe that the next rate hike will be 50 basis points. It remains to be seen how raising rates in a slowing economy will play out this time, but it is not often a good scenario. The longer the war in Ukraine rages on the greater the impact that will be felt worldwide. While gas and energy prices have received the greatest headlines, food shortages are likely to come next as imports from Russia and Ukraine will need to be replaced by other sources. Supply chain issues remain a challenge. The labor shortage in the US only serves to exacerbate the issues. With unemployment falling (either by people getting jobs or people leaving the labor force), more and more companies are struggling to find workers with over 10 million unfilled positions reported earlier this week. It is an interesting dynamic with low unemployment and an abundance of jobs available. The good news for the worker is likely higher wages but company earnings will suffer along with the consumer when those costs are passed on. As you can see, there are lots of cross-currents. The result is a choppy and nervous market. Be careful. We made a few changes in our portfolios this week as we took gains on some positions that had rallied with the market and sold a few low-volatility positions that had begun to falter. We have lots of cash currently and will be looking for opportunities to selectively put that money to work. In an uncertain market, cash is not all bad. With the markets closed next Friday for Good Friday, we will return in two weeks. In the meantime, enjoy your cool weekend.

The content of the BAM Market Note is provided for general informational purposes only and should not be construed as advice to purchase or to retain any interest in any of the investments mentioned. Any references to returns are not indicative of future performance and are subject to adjustment or revision.