

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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As we stated last week, “We still believe that this is a bear market rally, and the odds favor a return to the lows (or below).” Well, we have our answer and a bear market rally it was. While bear market rallies can have the look and feel of a return to a bull market, the punishment on the downside can be fast and furious. Such was the case this week as the bellwether S&P is on pace to fall 5%. Consolidations like we had from 5/27 to 6/7 often resolve in the direction of the primary trend. Such was the case this time and the S&P is close to testing the lows. A break here would shake the market even more and would lead to another whoosh down. The bulls have to make a stand at the 3880-3900 level. This is a tumultuous market and not one to play in. Be careful trying to pick a bottom and just be patient.

The bulls keep looking for capitulation (which often marks a bottom). Capitulation is a day when everyone sells everything! With capitulation, you see large volumes and a spike in the VIX. While the VIX has spiked today it is still well below levels seen just a month ago. Similarly, volume has not risen to levels seen when extreme fear is present. The volume and VIX both point to more pain ahead.

Our Point

Inflation readings this morning threw water on all those that were thinking that inflation has peaked. The inflation numbers were the highest reading since 1981 – 40 years ago! It comes as no surprise to those of us that are filling up our gas tanks and our grocery carts. Prices are rising and likely to go higher before it gets better. The morning CPI report puts more pressure on the Fed to aggressively raise rates and a 75-basis point hike next week just got more likely. The common thinking that the Fed would raise rates in June and July and then pause in September took a big hit as rate hikes are much more likely to continue for longer. The Fed continues to be in a box. Treasury Secretary Yellen admitted that her view of inflation was entirely wrong. It makes you wonder if they know what they are doing and lends little credence to successfully navigating the delicate and narrow soft landing needed to forestall more weakness. Things look bleak. However, there will come a time when all the bad news (even that in the future) will be priced into the market. When the future looks bleakest, that can often be the time to buy, buy, buy. Things get so bad that it is good! We aren't there yet but we, unfortunately, are getting closer. We made a small change in our aggressive portfolio this week as we sold a small position that had risen with the recent bear market rally. Our portfolios continue to be defensively positioned and patiently waiting for a better entry point. It is important to remember that investors that miss the bulk of the downturn, will be handsomely rewarded WHEN the market bottoms. Those investors that ride the market down will be recovering principal and lessening their losses. We choose the former! I would be remiss in not mentioning the historic performance of the UT BaseVols. They play this weekend for a return trip to the College World Series and are the overwhelming favorite after a record setting regular season. Go Vols. Have a great weekend and enjoy your more expensive bbqs and travels.