

BILLS ASSET MANAGEMENT

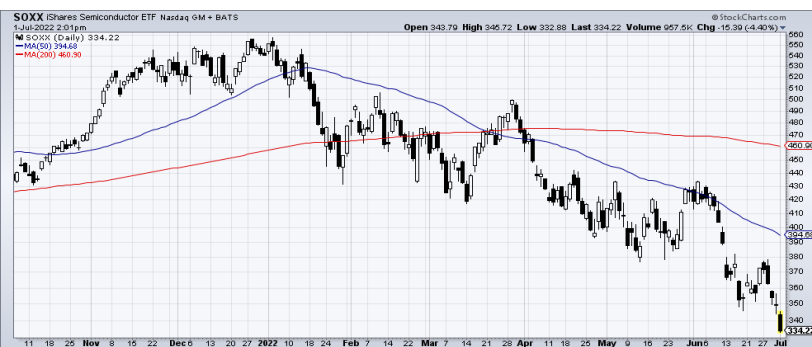
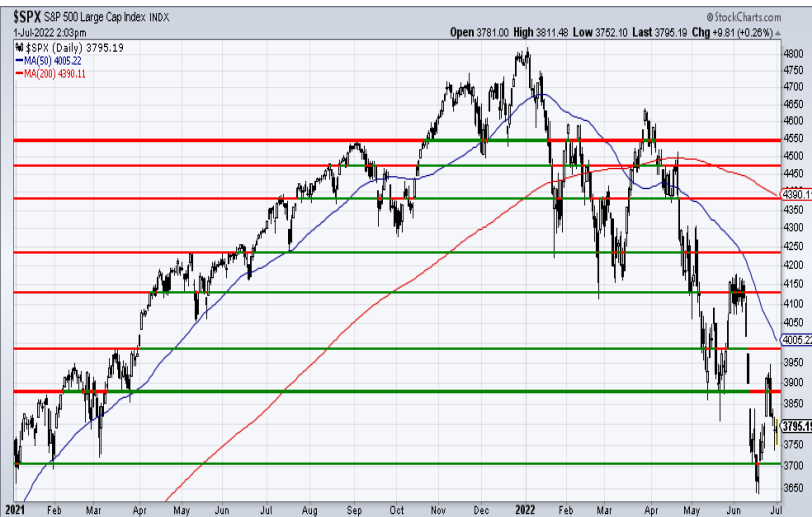
BAM MARKET NOTE

JULY 1, 2022

BO BILLS (615) 371-5928

SAM BILLS (865) 525-1329

CARTER BILLS (615) 585-6867



As we mentioned last week, there was strong resistance at both the 3900 and 4000 levels, and we expected a pause to develop at one of those points. 3900 was that level as the index climbed above for a day before heading back down. It has been another painful week as the S&P looks to finish down around 3% and a total of 8% for the month. The last 3 months have been dismal with the S&P down 16% for the quarter. There is no whitewashing those numbers and it was very ugly. 3700 remains the next target on the downside with the highs right before the pandemic at 3370 an increasingly popular place for analysts to say we are ultimately heading. We won't pretend to know but the market is weak heading into a very important earnings season that could easily surprise to the downside.

If the performance of semi-conductors are an indication (and they often are), we are heading lower in the near-term. Semis have been very weak this year and the downside accelerated today with an early earnings warning by Micron Technology. If Micron's warning is the first of many (we think very possible), then we could see a weak July that rivals that of June.

Our Point

Over the 10 or so years I have been writing this note, I have probably said this is the most important earnings season more than a few times. Well, I will say it again! The upcoming earnings season is very key and will determine whether or not the Fed continues its fight against inflation or pulls back on rate increases and whether or not we head lower (perhaps much lower) or whether we moderate. The market got a double dose of earnings warnings this morning as both Micron and General Motors sounded the alarm on their upcoming earnings and reduced forward guidance. It probably won't be the last of the early warnings as companies try to get out ahead of bad news. While earnings don't start in earnest for a couple of weeks, we could continue to see press releases over the next week or two as companies try to lessen the blows of earnings misses and lackluster growth projections. I would be remiss here if I didn't state that the stock market WILL bottom before the economy. While the market is forward looking much of the economic measures (earnings included) are backward looking. Accordingly, at some point, the market will look forward to what is coming and determine that we have turned the corner well before the data supports that presupposition. It is why the earnings guidance during earnings season is much more important than the actual results. While the headline misses drive short-term moves, the longer-term guidance and the reasonings behind them will bring this market out of this current malaise... eventually. We don't believe it will be in the current quarter results as we think that the economy still has some repair and pain ahead. For these reasons and more, we remain defensively positioned and continue to raise cash from small holdings on market strength. We are nearing 100% cash which will be a great position when the market turns. It is always amazing to me to see the talking heads on CNBC and Fox telling you to buy when they never told you to sell! With what money are you supposed to buy!?! Unfortunately, it is the same with many investment "advisors." Forgive me if I get a little preachy here but with all that is currently going on in the US and the frustrations that many feel over the economy, their politics, even the oppressive heat!, my hope is that we can all take a breath and remember that despite all our differences (the left, the right and all those in between), we remain a beacon of hope to the rest of the world and are blessed to live in the land of the free and home of the brave. Let Freedom Ring and enjoy your 4th!

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