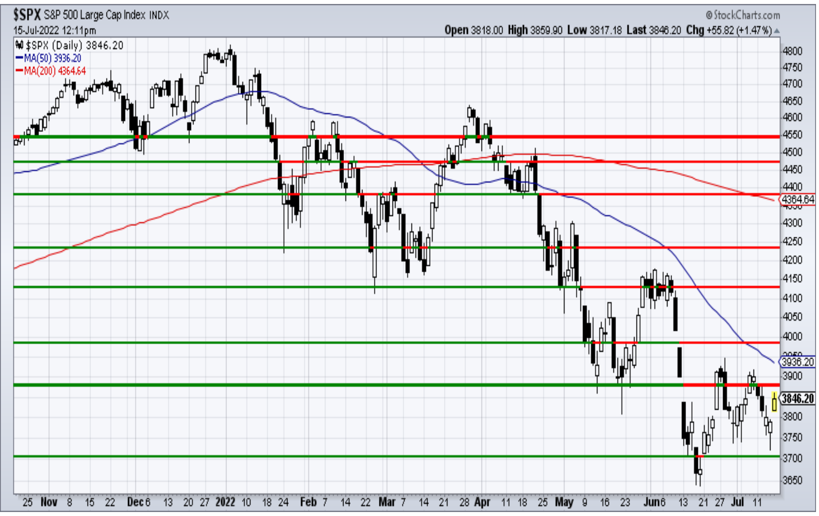
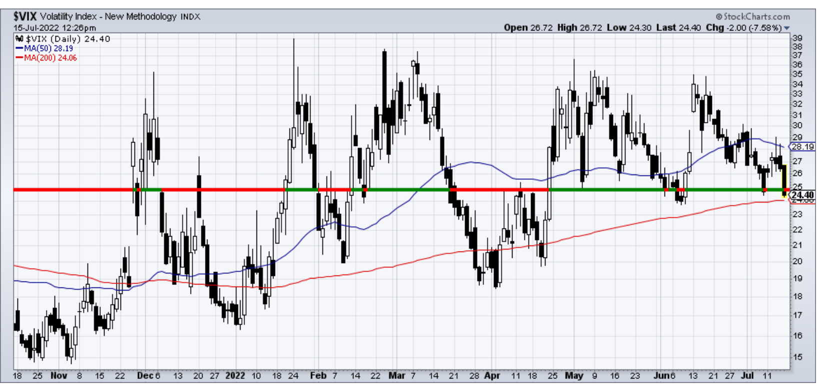
BILLS ASSET MANAGEMENT | **BO BILLS** (615) 371-5928
SAM BILLS (865) 525-1329
CARTER BILLS (615) 585-6867

BAM MARKET NOTE

JULY 15, 2022



After 4 straight days of losses, the market is bouncing strongly today. As we mentioned last week, the market was at an important level and needed a catalyst to move up past the late June highs. Instead, the market headed south and tested the 3700 level on an intraday basis. The S&P remains in the month-long trading range bound by 3700 on the downside and 3900 on the upside. The next big move will come when this trading range is breached. Whether that big move is up or down is the key question! With earnings season upon us, we will likely get a resolution one way or the other in the coming days/weeks. A break to the upside could be strong and take us to the 4100 level. Similarly, a break to the downside could see the 3550 level tested.



The VIX is behaving relatively bullishly. As we have discussed, the VIX is a measure of expected volatility in the market. When it is high and rising, lower prices can be expected. Alternatively, a lower and falling VIX often means a sense of stability in the market. During the bull market, it was common to see the VIX trading in the low teens. During bear markets, it is not uncommon for the VIX to remain above 30 and spike to much higher values. We are watching the VIX to get an indication of how much fear remains in the market.

Our Point

It has been a bit of a strange week. The market got hit with lots of bad news and was able to keep its head above water. On Wednesday, the Consumer Price Index (CPI) came out much hotter than expected indicating that consumer inflation continued its ascent for the prior month. Similarly, on Thursday the Producer Price Index (PPI) disappointed and rose above expectations. Naysayers pointed to the numbers and argued that inflation was far from peaking. Optimists argue that we will see a much lower print next month as the fall in gas prices has accelerated over the last few weeks. Regardless of whether or not inflation has peaked, it remains at highs not seen in 40-50 years and that level will likely continue for some time. In addition to the worrying inflation reports, the markets also had to digest disappointing earnings and forecasts from JP Morgan. With the exception of Citi, early earnings have been disappointing. This morning's retail sales report indicate that the consumer is still spending, and inflation has not swayed them. With our prime day purchases, we certainly did our part! With the hot inflation data and the strong retail report, the Fed is all but certain to raise rates another 75 basis points in a couple of weeks. In fact, there is an increasing likelihood of a full 1% rate increase – the magnitude of which that has not been seen since the early 1980's. Despite it all, the markets managed late day rallies each day this week to stave off early losses. Today's impressive rally will not be enough to bring the market up for the week but will make the losses much more palatable. Sometimes it is just very difficult to know why the market is acting like it is! This is one of those times. As mentioned above, the S&P is in a 200-point trading range and movements within this range are mostly noise. A convincing break one way or the other would be the impetus needed to consider making portfolio changes. In the meantime, we continue to hold what we have. We made no changes to our portfolios this week and will remain patient as we muddle into what could be a tumultuous earnings season. I will be traveling next week but will still likely put out a note next Friday. Enjoy your weekend.