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

BAM MARKET NOTE

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The weakness from last week has persisted into this week and the market is dangerously close to nullifying the uptrend that began back in June. Uptrends are defined as a trend with higher highs and higher lows. The decline over the last two weeks is back down to the lows of earlier this month and right at support. In fact, with today's early action, support has been breached and the bears are trying to muster more selling. The bulls will need to make a stand here or further weakness could easily extend back to the 4000-support level – which also coincides with the 50-day moving average. Absent a stand here, we are likely going back down to those levels. Late day movements are often the product of "smart money" so watching the close will be very important today for near term direction.

High yields had experienced a similar rally as the rest of the market. The rally was one of the many bright spots in the mid-June to mid-August rally. However, high yields have fallen quickly and are now nearing the 50-day moving average. While there is nothing magic about the 50-day moving average, it generally acts as a good barometer for high yields in determining a "risk-on" vs a "risk-off" market environment. A break below the 50-day average would not bode well in the short-term. On the flip side, should high yields hold, we could see another rally back up to the recent highs.

Our Point

The talk about a Fed pivot to a more dovish environment was quashed today as Chairman Powell spoke at the annual Jackson Hole symposium. Among the more pertinent responses, Powell said restoring price stability will "take some time" and requires the Fed to use its tools "forcefully" in order to bring high demand into a better balance with struggling supply. "We must keep at it until the job is done," Powell said, adding that history shows bringing inflation down often comes with "softening of labor conditions" that will "cause some pain to some households and businesses." In separate responses, other Fed governors noted that "there is still a long way to go" on rate hikes and that ongoing policy changes will have a "restrictive" effect on the economy. While many on Wall Street had hoped for dovish comments and hints that a smaller hike would be coming in September, Powell seemed to indicate that a continuation of a 75-basis point is more likely. Of course, we'll see lots of employment and inflation data before the Fed makes its interest rate decision known on September 21st. That data will be watched carefully as surprises could make the Fed change its tune. The market has sold off this morning on the Fed comments. As noted above, what happens at the close will be more instructive. Should the market continue to sell off into the close, then the odds of continued selling next week goes up markedly. However, a rally into the close to lessen the losses of today could foretell that the worst is over with the recent Fed comments. Regardless, after the strength of the last two months, the bears are asserting themselves and are in control. Next week will be important to see if the rally has run its course or if the market can find its footing and resume the uptrend. Some weakness after such a strong rally was to be expected but if supports are taken out, the case that the 2-month strength was just a bear market rally will gain much steam. We have maintained that the strong rally had the hallmarks of a bear market rally and that a resumption of market weakness could be coming. We may be starting that now. With that said, a stand here by the bulls would lend much credence to the argument that the bear market is over. We are watching things carefully and remain ready to make portfolio changes as necessary. We made no changes to our portfolios this week and will await resolution of the current weakness before making adjustments. Enjoy your weekend.