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BAM MARKET NOTE

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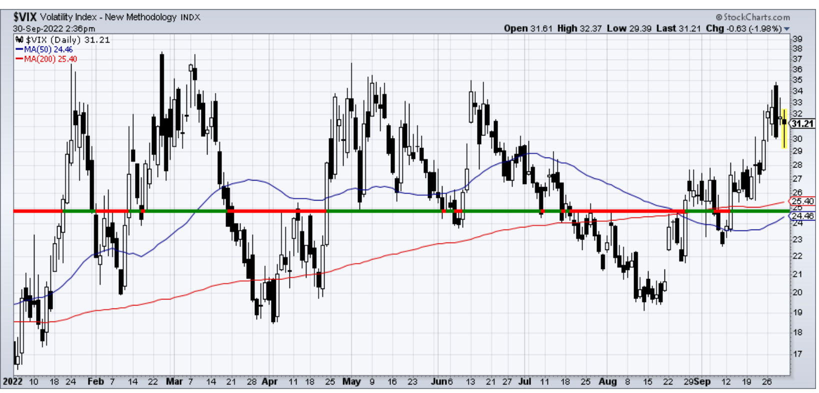
SEPTEMBER 30, 2022

This market has not wanted to bounce. Despite being very oversold over the last couple of weeks, any attempt by the bulls to rally has been met with selling. The buy the dip crowd has become the sell the bounce crowd. It is a noteworthy change and a reflection of the realization by investors that the Fed won't or can't put a floor under this market. The S&P is just below the lows of the year and are in danger of losing that level. We don't believe it is a matter of if that level is broken but when it is broken. Noticeable in the S&P chart is the lack of support from the 3550 to the 3200 level – that could easily be a quick 10% decline in the market when/if we get there. With selling on the minds of many investors, it would not take much bad news to lead to another leg down. Be careful.



As noted here before, VIX levels above 30 are dangerous markets and one where enough fear is present to lead to quick down-legs. While VIX levels in the 30's are not terribly uncommon in a bear market, they are representative of the dangers of playing in this environment. We are at VIX levels where the market has staged bear market rallies over the course of this year so investors should not be surprised if a bounce of some magnitude develops over the coming week or two. Again, we view any bounce as an opportunity to adjust your portfolio to your risk tolerance.

Our Point

The Bank of England (BOE) surprised the market on Wednesday with a sudden reversal in its monetary policy. The BOE purchase of British Bonds (Gilts) was initially viewed as a positive as it appeared there might be a policy shift. The markets responded in part with a big rally on Wednesday. However, by Thursday morning it was determined that the BOE purchase was far from a policy shift and was done to protect various British pension funds from financial disaster as liquidity within those funds was nearing emergency levels. The cracks in the British economy are showing and illustrates that financial instability is increasing worldwide. As we have discussed in prior notes, as bad as it feels in the US, it is much worse in Europe. It is a global economy and issues in Europe will surely spill over to the US. September lived up to its bad reputation as all of the major indices fell sharply. The Dow, S&P, and NASDAQ are all down somewhere between 8 and 10% for the month. October can't come soon enough! Absent a shift in Fed policy (something we don't see as likely for several months), there doesn't appear to be anything on the horizon that could lead to any sustainable market advance. Certainly, risk far out-weighs any benefits of being positioned aggressively. Some market pundits are counting on the upcoming earnings season to put a floor under the market. In fact, I saw one "market expert" on the business channels this morning saying he was all in with his clients and expected higher prices soon. Of course, as I recall, this same expert said much the same about 10% ago. While earnings can always surprise to the upside, we believe that market expectations (though reduced) are still likely too high, and the odds of disappointments far exceed those of positive surprises. The warning by FedEx earlier this month and its subsequent 30% drop may very well be a preview of the upcoming earnings season. We will know soon enough as earnings will start coming out over the next 2 weeks. There are very few places to hide in this environment as bonds have been decimated along with stocks. Cash is not a bad place to be. Our portfolios remain very defensively positioned and managed a small gain for the month. We have not made any changes to our holdings and remain comfortable with a defensive posture. Enjoy your cool fall weekend.