

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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As we wrote last week, “With the market getting a little oversold, a rally next week is probable. However, it remains unlikely that the bulls can get much higher than the 50-day moving average on any rally.” After 3 straight down weeks that shaved nearly 10% off of the S&P, the current week’s rally is not unexpected. As we write this, the S&P is at the highs of the day. We would not be surprised to see a little selling at the close to bring the S&P back down towards the 50-day moving average. Upside from here is likely limited but it is possible we could test the next resistance level at the 4130 level. We continue to believe that any rallies should be sold to bring your portfolios back to your risk tolerance. The bear market will eventually end but we suspect more pain is ahead before then.

High yield bonds have rallied with equities but have (to this point) been halted by the 50-day moving average. A sustained break above this level would make us re-evaluate our stance but, for now, it looks like high yields are warning that the current rally is near its end.

Our Point

Right on cue, the bulls asserted themselves and rallied from oversold levels. I am going to call bull \$%\$#. I don’t believe the rally and believe that another bull trap is presenting itself. We will find out soon enough. Next week brings another round of inflation data as the monthly CPI is reported on Tuesday followed by PPI on Wednesday. We’ll get an idea of whether or not the Fed’s interest rate hikes are bringing down inflation or if more hikes are likely. Meanwhile, over the pond, the ECB raised interest rates for the second time this year. This time it was an historic 75 basis point hike that brought rates positive for the first time in 8 years of negative rates. Winter is coming. With energy prices high in Europe and going higher, the ECB remains behind the eight-ball and inflation will continue to be a big issue with all of Europe. Recession there is a foregone conclusion and will likely spread to the US (if we aren’t there already). Back in the US, Chairman Powell stated this week, “We need to act now, forthrightly, strongly as we have been doing. It is very important that inflation expectations remain anchored. What we hope to achieve is a period of growth below trend.” The last sentence is key as many investors are not pricing in the earnings decline that will come with a hawkish Fed. Absent a huge surprise in the CPI and PPI numbers, Powell’s continued hawkish statements make the September 21st 75 basis point rate announcement a foregone conclusion. We are in a bear market. Bear market rallies can be strong and look like the end – in fact, one of these bear market rallies will turn out to be the end! However, we don’t believe we are there yet. If we are wrong, then we will move back into the market. If we are right, then the last stage of a bear market is often its most dangerous and destructive. Until proven otherwise, we believe that we have not yet seen the worst of market action. We sold one position in our portfolio this week and became a little more defensive on the recent strength. Our portfolios are positioned for further weakness, and we are very comfortable giving up a few gains to avoid a potential life changing loss. We are continuing to look for opportunities and energy is one area that has piqued our interest. We may be adding an energy position sometime in the near future. It is going to be another football filled weekend as the Vols face a big challenge and the Titans try to start out on the right foot. I am predicting an Orange and Two-Toned Blue weekend. Hope yours is fantastic!

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