BILLS ASSET MANAGEMENT

BAM MARKET NOTE

OCTOBER 28, 2022

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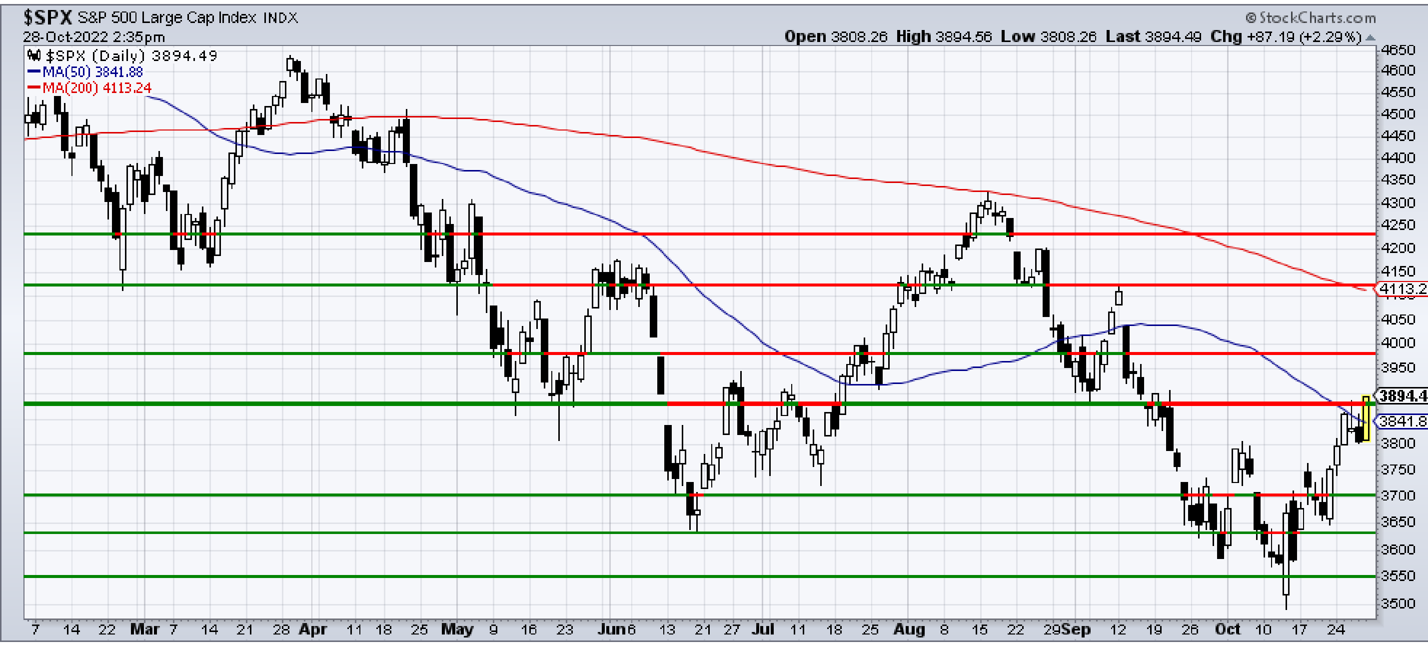

Our Point

There is an old Wall Street adage that says investors should “buy the rumor and sell the news.” While it is hard to pinpoint the reasons for the recent market gains, there is no denying the recent market surge. We suspect that rumors of a Fed Pivot are causing the market to move higher. Additionally, as more and more evidence of a Republican takeover of at least one house of Congress becomes more and more likely, the idea of a split government is appealing to a stock market that doesn’t like one party control of Washington. With the Fed meeting next week, we will soon get an idea of whether or not the pivot rumor holds true. Similarly, we will know by Wednesday November 9th, whether or not the Republicans can achieve winning the House and/or Senate. Absent the Fed moving very dovish, we believe that much of the rally this week will be reversed next week. Similarly, if the anticipated Republican wave comes to fruition, the market will have a muted to negative reaction as much of the gains of this result are largely priced into the market. While it is always the possibility that something else is afoot, we don’t believe that is likely and our thinking remains that the current strength is just another strong bear market rally in the midst of an otherwise down market. We are always evaluating our thinking and will change when market conditions warrant. The 3900 level on the S&P is significant resistance and an area where we thought a bear market rally could attain. Should this level be broken, and hold post the Fed meeting on Wednesday, then we will adjust our thinking. The market is over-extended to the upside, so some level of consolidation or pullback next week is likely (unless the Fed indicates a big pivot from their interest rate hikes). With all that said, there are a number of positives in the market. We are entering a very favorable market period where the markets often rally. Additionally, the market is rallying in the face of bad economic news. When the markets go up when earnings disappoint one should always take note. The large tech stocks almost without exception have disappointed Wall Street in their earnings. Facebook fell nearly 30%, Google fell 12%, Apple fell 5%, Amazon fell 8%, etc. What did the markets do? They forged ahead. The market strength in the midst of weak earnings from the market generals of the last few years, may also mark a changing of the guard where there is a shift from growth stocks to value stocks. It will certainly be something to watch when the market bottoms (if it hasn’t already). As we mentioned a few weeks back, bear market rallies and the bottom of a bear market can look very similar. Though we don’t believe the bear market is over, we are always open to changing our mind and will continue to consider the weight of the evidence. We are near the point where a bear market rally would end – if it doesn’t and the market continues upward then there will still be lots of opportunities to capitalize on. If market weakness returns, then we will be glad that we have exercised patience. In either event, the market has our attention, and we are watching things closely. We made a few minor changes to our holdings as we got a little less defensive but remain cautious in the current environment. It is another Big Orange weekend as the surprising Vols have another big game on Saturday night. Hopefully, the Vols will have more treats in store. Have a wonderful weekend and a Happy Halloween.