

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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BO BILLS (615) 371-5928

SAM BILLS (865) 525-1329

CARTER BILLS (615) 371-5928



Our Point

Over the last couple of weeks, we have noted the oversold condition of the market and commented that an oversold bounce was likely. We got that in spades earlier this week as the indices jumped 5-7% over the first two days of the week. Since then, the markets have headed back down with the S&P giving back almost 4% of the early week gains. Despite the excitement, 3% up days without any specific catalyst are a sign of market fragility and not one of a healthy market. The big 2-day move was entirely the result of short-covering and not an indication of new buyers looking at bargain prices. We will likely get a tradeable rally soon with S&P prices possibly rising to resistance in the 3900 range. Whether that comes next week or in a few weeks will depend on earnings and the upcoming CPI report. Earnings will start next week with a smattering of releases but will start in earnest the following week. The monthly CPI comes out next Thursday. The market continues to look for a reason for the Fed to pivot from their hawkish stance to a more dovish one. That will only come when the economy slows enough (earnings) AND inflation falls. Despite what many pundits hope, with persistent and ingrained inflation, it will be some time before the Fed is in the position to cut rates or start another round of quantitative easing. Higher rates are here to stay and the sooner the market realizes this and adjusts, the sooner the market will bottom, and a sustainable rally can happen (albeit from lower prices than we are now). We mentioned the VIX last week and after a quick fall on the early week rally is back above 30 marking a dangerous time to be invested. Caution remains the best course. Earnings revisions have been such that we may see some surprises to the upside over the coming weeks. This is not to say that company earnings will be strong – just that they may be better than expected due to lowered expectations. If earnings do come in a little better, it could provide the fodder for at least a short-term rally that could last for a few weeks. There will be lots of data over the coming few weeks so any preconceived notions of what the market might do could quickly be vanquished. When the facts change, we will change our minds. For now, the markets are fraught with risk, and we are enjoying the defensive nature of our portfolios. We made no changes to our portfolios this week and are content to wait for opportunities with much of our portfolios in the safety of cash. Speaking of opportunities, they are coming, and we are continuing to compile a list of interesting positions once the market bottoms. The further the market falls the greater the opportunity for those that are protecting capital now. For those investors/advisors that continue to hold losing positions, they will have no money available to buy at the bottom! It is going to be a gorgeous fall weekend in Tennessee with lows dipping into the 30's overnight and highs in the 70's. It doesn't get much better than that. Carter and I made the trek to Indianapolis last weekend to watch our Titans take down the Colts. It was a great trip and a great win. We are hoping for another winning weekend with the Vols and Titans both in action. Have a great weekend with the ones you love.

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