BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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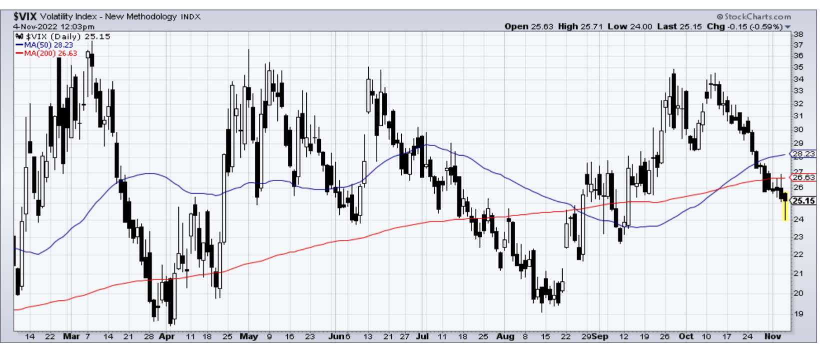
As we mentioned last week, we expected the bear market rally to come to a halt at the 3900 level. That thinking was correct as the S&P hovered around 3900 for 3 days before turning decidedly down. The large cap index is now testing support at the 3700 area. It has been another volatile week with big swings intraday. The market initially bounced on Wednesday when the Fed rate decision came out but quickly reversed the gains and ended down hard for the day. Similarly, the market bounced up on the jobs numbers this morning but has given back those gains and has turned negative at this writing. It is a volatile market as the bulls and bears each try to get the upper hand. There are some positive signs but caution should continue to be exercised.



One of the positive signs is the decline in the VIX. After rising to the mid-30's in early October, the VIX has steadily declined with the rally and now sits at 25. A VIX at 25 is kind of in no-man's land. A break lower would signal abating fear while a new upsurge would indicate increasing nervousness in the markets. While the decline has been positive, the VIX sits at a pivotal level. It is just one indicator to consider but for the rally to resume, the VIX will need to decline further.

Our Point

For all those waiting on a Fed pivot, the wait continues. As we have noted over the last several weeks, we have taken Chairman Powell at his word and viewed the talk of a pivot premature. The Fed continues to be in a box of their own making. With inflation remaining stubbornly high, the Fed has no choice but to continue raising rates and talk of the Fed pivoting to a more dovish stance remains somewhere in the future. With economic data lagging any interest rate changes, the risk remains that the Fed will go too far too fast. That concern remains. Interestingly, those wishing for a Fed change in policy may regret getting what they are asking for as it is very likely that Fed policy will change only after the economy weakens to such a point that a recession has firmly taken hold. Despite what many thought was a less hawkish tone in the original interest rate decision early Wednesday afternoon, Chairman Powell made it clear (again!) that there is much work to be done to tame inflation. The realization (again!) that the Fed is not likely to slow its hikes until inflation turns down led to a steep sell-off Wednesday afternoon. The jobs report this morning came in a little hotter than expected and the market inexplicably rallied. A hotter jobs report would seem to indicate what Chairman Powell said on Wednesday afternoon – more work needs to be done to slow the economy and bring down inflation. The rally has evaporated but, in these markets, there is no telling where we will end up at the closing bell today. In all honesty, we could end up 2% or down 2%. The markets are that indecisive. In such markets, it is difficult, at best, to determine near-term direction. Longer term, the downtrend that begin this year remains intact and lower prices should be expected until proven otherwise. With the mid-term elections set for next Tuesday, increased volatility should not be unexpected. Polls are continuing to shift in the Republicans favor, and we suspect that the rally over the last couple of weeks was in anticipation of split government. Absent a surprise positive showing by the Democrats, it is entirely possible that the markets will sell off initially on the results. In fact, we wouldn't be surprised to see an initial sell-off regardless of the results. However, with the election uncertainty decided, a late November through December rally could be in the offing. Any rally will likely continue to be a bear market rally in the midst of a downtrend but could be strong enough to generate gains for the nimble trader. We remain cautious and made a few small changes in our portfolios. We are defensively positioned but could take on a little more risk should an end of the year rally develop. With apologies to our Georgia audience, here's hoping for a Big Orange weekend.