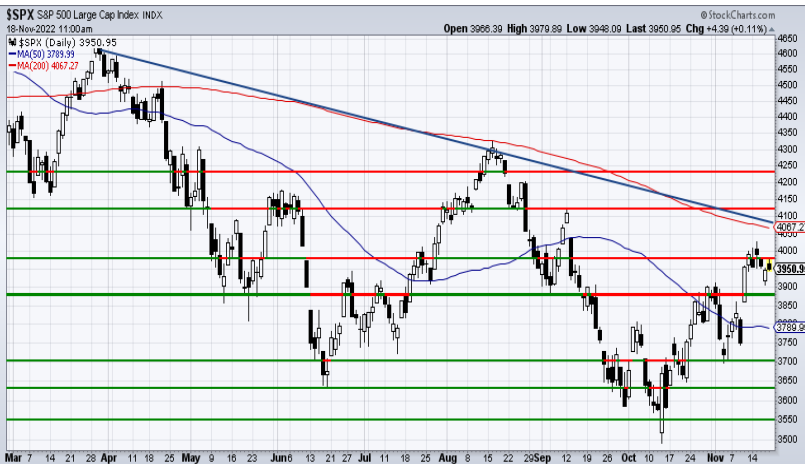


BILLS ASSET MANAGEMENT
BAM MARKET NOTE
NOVEMBER 18, 2022

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After last week's surge to the upside, we noted that a pause or decline was likely going into this week. We have gotten both as the market paused and has turned down from the key 4000 resistance level. 3900 has come into play this week and it will be important for the bulls to hold this level. Holding above support would set the stage for a rally back up to 4000 and, perhaps, the 200-day moving average at 4070. There will be significant resistance at the 200-day moving average as it also marks the down trend line from March of this year. Breaking above this important trend line would be a huge victory for the bulls and would set the stage for a much larger rally. We are less than optimistic and fear that lower prices will come over the next few weeks.

Long time readers know that the behavior of high yield bonds are one of our favorite indicators. Generally, when high yields have moved above their 50-day moving average, it can set the stage for a rally in the equity markets. There is no magic to the 50-day moving average but, historically, it has worked well. In any event, high yields moved above the 50-day average last Thursday and has remained above that level this week. If high yields can maintain their strength over the next several days, we will be more comfortable in taking on more risk in our portfolios.

Our Point

With the exception of the final numbers, the control of both houses of Congress has been decided. With the certainty of split government settled, that is one less thing the markets have to worry about. Unfortunately, the list of other worries is long. While there are a few things that could go right for the markets (peace in Ukraine, a more accommodative Fed, a Federal Reserve soft landing, etc.), there are many more things that could go wrong (continued war or escalation in Ukraine, a serious recession in Europe and likely the US, slowing corporate earnings, continued rate increases by the Fed, a hard landing – the Fed moving too far and too fast, etc.). The balance of risk to rewards fall in definite favor of the bears. That is not to say, that good things can't happen that would propel this market further up but, rather, that the weight of the evidence points to more turmoil and lower prices over the coming months. We may get a reprieve (already have in many respects) during this seasonally strong period but we suspect that the lion's share of gains were made in the 2-day rally last week that took many by surprise. We further suspect that December (particularly later December) could get very choppy as investors sell some investments to book capital losses to shield income. As mentioned last week, the middle of December will be a potential turning point as the increasingly important CPI gets reported and the Fed announces their interest rate decision on successive days. While a weaker CPI could fuel another rally, it seems just as likely that a hotter inflation number could lead to a big sell-off. One would have to guess the outcome of those numbers and the Fed's reaction to them to capitalize and guessing is not the best prescription for a long-term investment strategy. Instead, we believe that a measured response to the charts (technical analysis) will yield the best results over time. Technical analysts may miss some of the toss up days where guessing is the only strategy but, over time, will continue to capture most of the up markets and miss most of the down ones. With Thanksgiving next Thursday (is it here already!?), next week will be a short trading week. With my stomach full of turkey, dressing and various desserts, I will likely not post a market note next Friday unless significant market events warrant a note. We hope you have a wonderful Thanksgiving with the ones you love (maybe with some you don't!). Despite the market weakness of 2022, we have much to be thankful for, not the least of which are our clients and friends that read this market note every week. Thank you for your trust. Have a great weekend.