**BILLS ASSET MANAGEMENT**

# BAM MARKET NOTE

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Last week we noted that the market was at a natural stopping point, and it would be logical for the market to turn down in the short term. Right on cue, the market turned down hard on Monday and Tuesday before regaining its footing on Wednesday and Thursday. For the week, the S&P looks to finish down between 2.5 and 3%. The large cap index has fallen below the 4000 support which has now become resistance again. We suspect the market will not make any big moves the rest of today or Monday. Fireworks may very well be seen on Tuesday and Wednesday as we get the much-anticipated CPI and Fed decision. Caution is not a four-letter word here.


While the major indices have struggled this week, high yields have held their own. The relative strength in high yields is not something to sneeze at and they remain our largest portfolio holding. Something has to give here as the divergence between the S&P and high yields is relatively significant. One of these two is misreading the tea leaves and they will not diverge for long. Generally, bonds are "smarter" than equities, so this chart has our undivided attention.

## Our Point

The market was poised pre-market to have healthy gains today. However, this morning's PPI report came in hotter than expected and raised the fears of stickier inflation that could cause the Fed to stay the course of higher interest rates for longer. The PPI is a report that details how inflation is hitting producers. On the flip side is the CPI (reports next Tuesday) which details how inflation is hitting consumers. The higher print in PPI can be interpreted one of two ways both of which are bad. First, the higher inflation faced by producers could be passed onto consumers which will raise the CPI. Or, second, the producers could eat the increased inflation and thereby reduce corporate earnings. Either result is not a positive for the economy. We'll know a little more of what producers are doing when we get the CPI numbers on Tuesday. If CPI doesn't have a corresponding jump, then it can be assumed that first quarter earnings will feel the effects of higher producer prices – they will regardless! First quarter earnings are likely to disappoint as their year over year comparisons will be December of 2021 before the economic weakness took hold. We suspect that the market could bottom in the first quarter of 2023, with good gains the rest of the year. We shall see. In any event, next week is a monster week for the near-term of the market. With inflation data on Tuesday and the Fed decision (and more importantly their comments) coming on Wednesday, we could see large moves in either direction. It is truly about the Fed in terms of where the market goes next. There is some thought that many on Wall Street misinterpreted what Chairman Powell wanted to say last week at the Brookings Institute speech. If that is true, then Powell may well over-correct and sound more hawkish next Wednesday which would lead to selling. As has been the case for much of this year, there are a number of cross-currents. A coin flip might give you better odds of predicting what the market will do next week with such key data forthcoming. We would rather maintain some caution before putting money on a coin flip. With that said, our portfolios did make a couple of small purchases this week as we bought a little healthcare and utilities. Both have been relatively strong but are on short leashes should the market turn down significantly. Keep your head above the water and enjoy your damp weekend.