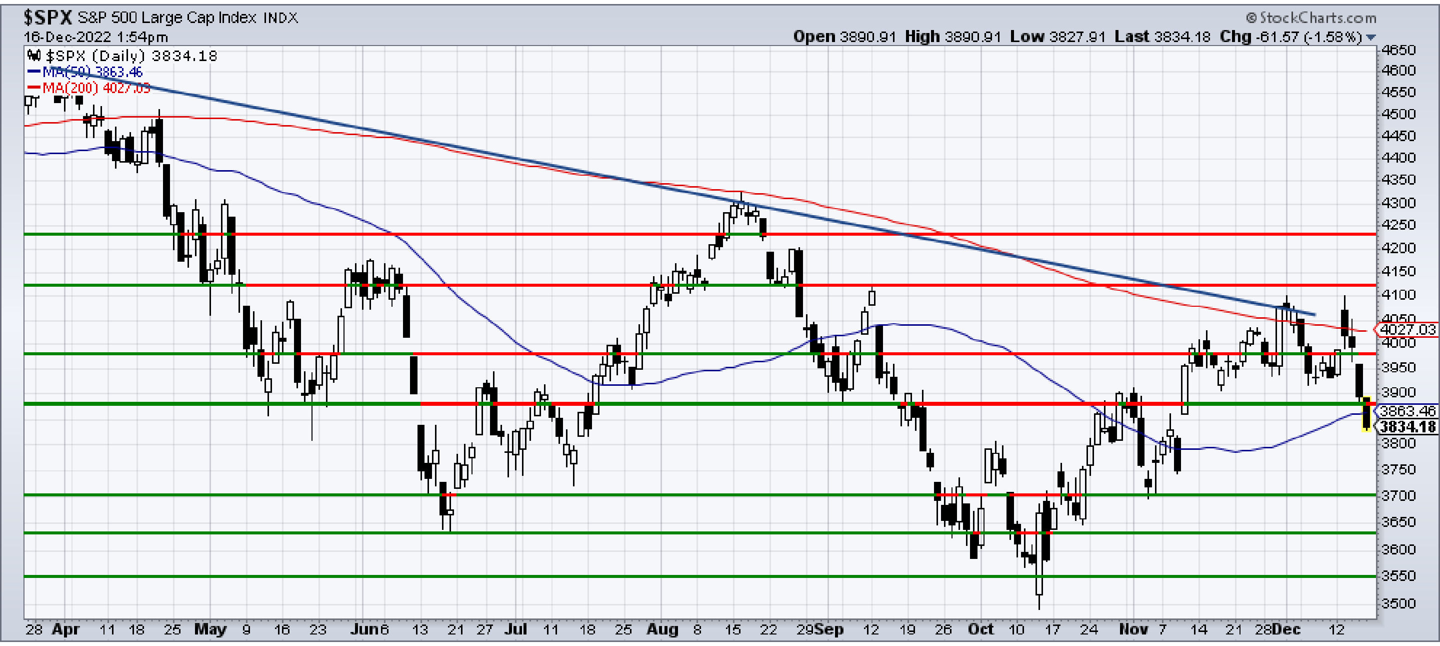
BILLS ASSET MANAGEMENT **BO BILLS** (615) 371-5928
SAM BILLS (865) 525-1329
CARTER BILLS (615) 371-5928

BAM MARKET NOTE

DECEMBER 16, 2022



Our Point

Shame on you. Fool me twice, shame on me! Investors continue to fail to take Chairman Powell at his word. While traders hope for a return to a more accommodative Fed, Chairman Powell continues to do what he has said he will do. As widely expected, the Fed raised rates this week at a 50-basis point clip. The reduced rate increase was baked into the market. What was not baked in was the continued hawkish comments by the Fed. For those looking for the central bank to blink, they were sorely disappointed. Comments by Chairman Powell after the interest rate announcement reiterated the desire for the Fed to bring inflation back to its target of 2% which means continued rate hikes into 2023. Any talk of rate cuts are not likely until late in 2023 or 2024. Investors had gotten their hopes up for a more moderate Fed with Tuesday's CPI inflation report coming in lower than expected. After the CPI data, the market rocketed to the upside – gaining nearly 3% before giving back most of the gains by the end of the day. Wednesday was Fed day and the market traded mostly up until the afternoon when it sold off on Fed comments. The selling accelerated on Thursday and continues to this point today. Absent an afternoon turnaround, the S&P looks to be down 2.5% for the week. This follows last week's losses of over 3%. It has been an ugly 2 weeks as the grinch threatens to put a damper on the traditional Santa Claus rally. Key support was broken with this morning's weakness as the 3900 level and the 50-day moving average both gave way to selling. The breach brings 3700 back into play (another 3% to the downside). The markets are oversold on a short-term basis so we could see a rally of some strength next week. As we have mentioned in these pages for much of this year, we are in a bear market and rallies should be viewed with some level of skepticism and extreme caution. The failure of the most recent rally came right where was expected. While an end of the year rally is still possible (Santa may come yet), we would expect it to be short-lived with 2023 beginning on a down note. With the Fed's next interest rate decision not until February, the market will be fully attuned to first quarter earnings and any warnings that come out early. It is very possible that Wall Street remains too optimistic in their earnings forecasts as the Fed's interest rate policy slows down the economy. A hard landing remains a distinct and, perhaps likely, eventuality. We sold a position earlier this week but will be considering adding short-term positions next week should the market look like it wants to rally into year-end. We continue to err on the side of caution as we navigate what has proven to be a difficult 2022. While I cannot say with any confidence when things will get better, I can say with complete assurance that things will improve and that there will be opportunities in 2023 – perhaps very good opportunities. Out of bear markets come opportunities for outsized gains. While losing some amount in a bear market is not unexpected, those investors that manage the risk and avoid life-changing losses will soon be building on their principal rather than recapturing their losses. As 2022 winds down, we are continually thankful for our clients and our other loyal readers. Thank you for giving us a weekly read. With Christmas on our doorstep next Friday and New Year's the following Friday, we will adjust our schedule and issue a final 2022 Bam Market Note during the week between Christmas and New Years. We wish all of you the Happiest of Holidays and the Merriest of Christmases!