

BILLS ASSET MANAGEMENT

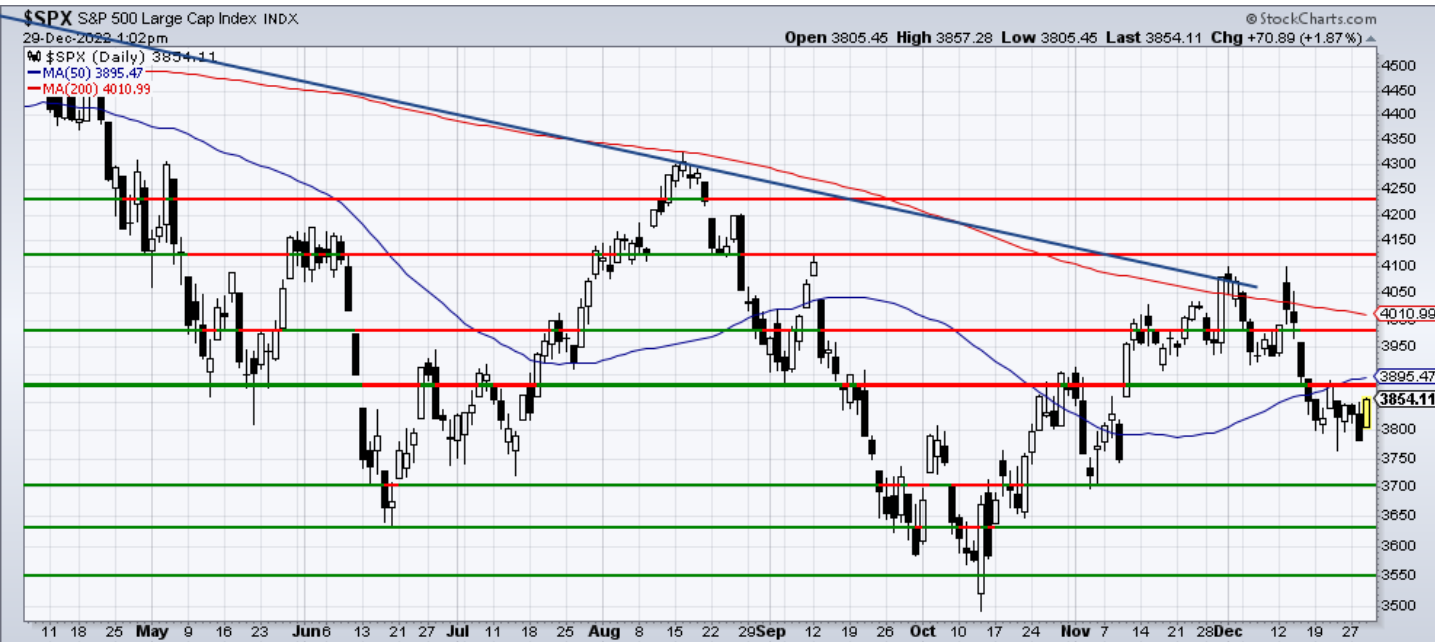
BAM MARKET NOTE

DECEMBER 29, 2022

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Our Point

Since we last wrote this note almost 2 weeks ago, the market has gone virtually nowhere. The S&P closed at 3852 on that Friday the 16th and is currently at that exact same level. Today's oversold rally has helped but it has been both a dismal December and 2022. For the month, the market is currently down over 5.5%. The annual total is equally depressing as the large cap index is down a little bit over 19%. Santa's cameo appearance today has lessened the blow some, but it has still been a December full of coal. Volume is light today and will be even lighter tomorrow as traders get an early start on New Year's Eve celebrations. Very little should be read into trading patterns today or tomorrow. The first week or two of January is a much different story. We will soon see where money is flowing in the new year and that will be very instructive. The markets have priced in a mild recession and 50-75 basis points in additional interest rate hikes. If the market should guess wrong on either of those two fronts, then another significant leg down in 2023 is very likely. Relatively meaningful resistance lies at the 3900 level while support is a tad above 3700. It is a wide trading range that could hold trading in the near term. Next week brings the FOMC minutes and the December jobs report. Both have the potential to be major market movers. With the Fed signaling that is slowing its pace of interest rate increases, earnings will take on an even greater importance as the market will begin to see what effects the Fed tightening is having on the economy and company earnings. Inflation data remains very important as continued elevated levels will put pressure on the Fed to continue its hawkish posture and raising the possibility of a more severe recession. Our portfolios entered December defensively postured and we have only become more defensive as the month moved on. We will enter 2023 with an elevated cash position as we patiently wait to see where/if opportunities are present in the early part of the new year. We have no idea what 2023 will bring, but, as we have noted a number of times over the course of this year, great opportunities will come out of the current weakness. In times like 2022, it is important to remember that returns on your principal are not as important as a return of your principal! We have tried to do that all during this year and have largely been successful. We are very optimistic and excited about the opportunities that are coming our way. Here is hoping they come sooner rather than later. In the meantime, we hope all of our loyal clients and readers have a wonderful, healthy, safe, fun, and adventurous 2023! Happy New Year!