BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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The S&P has continued its correction from last week. After rallying Monday and into the significant economic data points mentioned last week, the market continued its tepid sell-off. The sell-off remains orderly and mild to this point and may turn out to be a normal correction in an up-trending market. The S&P is down a little less than 1% so far this week. All things considered, the measured sell-off is encouraging for the bulls. The economic data this week was not in the favor of those in the bullish camp. Yet, the market, to this point, remains relatively positive. We'll see if selling picks up over the next week or two and if the bulls can resume the uptrend. The area around 4000 remains a line in the sand for the bullish camp.

The increasing fear that inflation will be around longer than we had hoped has led treasury yields higher. The rise in yields points to a few things. First, despite the recent market sell-off there is no panic and investors are not flocking to the safety of treasuries. Second, the bond market is pointing towards higher rates for longer. Third, the rise in rates is having a negative effect on the bond rally that started in January. There are other conclusions that could be drawn but those are the most obvious.

Our Point

As mentioned in our missive last week, there was a slew of economic data over the last few days. Both the CPI and PPI came in hotter than expected raising the fear that the Fed would raise rates higher and for longer than Wall Street had hoped and anticipated. Also, the retail sales number on Wednesday came in much higher than predicted indicating that the economy was not slowing as the Fed had been hoping. It should be noted that the retail sales numbers in January are always difficult to predict as there remains some hangover from the holidays. Accordingly, we may see a significant revision to those numbers. Regardless, the trio of bad news had the real potential to lead to a watershed decline. However, that did not materialize as the market has largely shrugged its shoulders at the bad news. While down since the releases, the major market indices have mostly held their own and that is a real positive. That said, the continuing decline in high yields remain troublesome. This sector has fallen below its rising 50 day moving average and is approaching its 200-day moving average. Further declines would not bode well for the market. Numerous Federal Reserve speakers have come out in the last few days reiterating the fact that the fight against inflation is far from over. In fact, the odds of a 50-basis point hike at the next meeting have gone up significantly over the last few days. We'll continue to get various Fedspeak over the coming weeks. Additionally, we'll get the Fed minutes next week that will shed more light on the Fed's thinking. As we mentioned last week, we are currently experiencing a normal market pause/correction. However, a few more days of selling and a violation of key support will turn the correction into a change in trend paving the way for more selling and a reversal of the yearly gains. There are conflicting signals (often there are!) so we will continue to follow the charts. Risk management remains paramount at potential market turning points and we will gladly give up some market gains to ensure that account principal remains intact when the odds turn against us. We made no changes in our portfolios this week but a few of our bond holdings are nearing sell points. We will be watching bond yields and the individual holdings carefully and may make changes next week. Enjoy your weekend and hoping it is filled with something fun!

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