BILLS ASSET MANAGEMENT

BAM MARKET NOTE

MARCH 3, 2023

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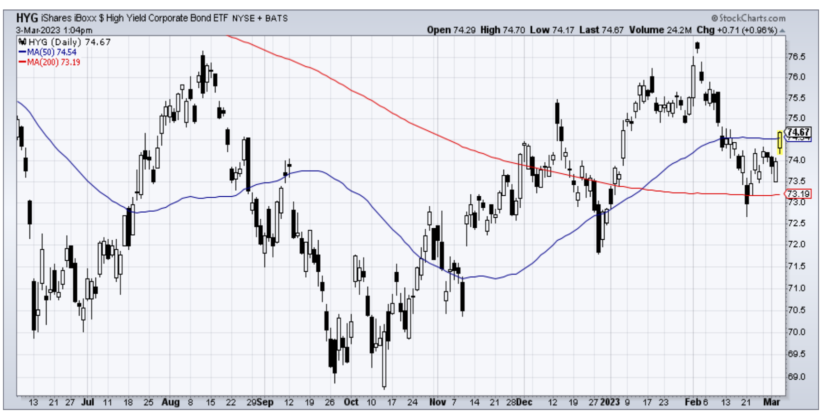
After the February swoon, the markets have bounced back a little in early March. For the week, the S&P looks to finish up 2% or so. Most of that gain is coming today as the markets surged this morning. Other than the markets being oversold, we see no reason for the rally this week. Of course, there could be something that is not evident but, as of now, this looks like an oversold bounce. Earlier this week, we have had several positive days that fizzled by the close. Let's see if sellers emerge this afternoon. On the positive side, the bulls were able to defend the 200-day moving average on 3 occasions over the last week. It is an important level that the bulls need to defend in order to keep the losses from accelerating. With the rally this week, the oversold condition is close to being worked off. Next week we will get a fresh view of where the markets want to move.



High yield bonds have rallied with the markets and have overtaken resistance at its 50-day moving average today. It will need to hold this level over the coming days for us to feel comfortable adding risk back into our portfolios. It is not lost on us that high yields have established a long-term uptrend (messy as it is) since October. The higher highs and higher lows are evident in the chart and give us some pause in calling an end to the bullish trend. Over the coming weeks, a failure to reach new highs and/or a lower low would confirm our thoughts that markets are heading lower.

Our Point

We talk a lot about moving averages here and it is not because we think there is some magic in them. High yield bonds are an exception because of their persistence of trend and, generally, slow moving nature. However, there are still many on Wall Street that hang their hats on moving averages for many equities and that has us paying attention to them. For many traders, moving averages play a big part in their trading decisions. Accordingly, breaches (one way or another), in these lines can lead to big moves in either direction. The 200-day moving average is one of the mostly widely watched and significant ones. The S&P's recent brush with the closely watched line is something to pay attention to as many program trading algorithms will be triggered on the penetration of this line and would lead to heavy selling pressures. There are no secret bullets in trading but when the herd moves in one-way, smart investors should pay attention and either jump on board or get out of the way. With the most widely followed index on the cusp of breaking this widely followed measure, investors should be on alert and pay attention to daily moves. It should also be noted that one- or two-day breaches of technical indicators should not be viewed as conclusive evidence of a trend shift. The specific numbers and lines are more general areas than lines in the sand and can often be broken without triggering big moves. However, sustained closes below certain levels can lead to big moves in either direction. Accordingly, our belief is, along with many other technical indicators, that they should be watched, monitored and acted upon. We sold one position this week as it met our sell discipline. A few other positions are on our watch list for further weakness, and we will not hesitate to sell if they hit our sell points. It remains a high-risk environment with winds of change swirling. Hoping your windy Tennessee day finds you safe. Enjoy your weekend.