Bills Asset Management

BAM MARKET NOTE

January 13, 2023

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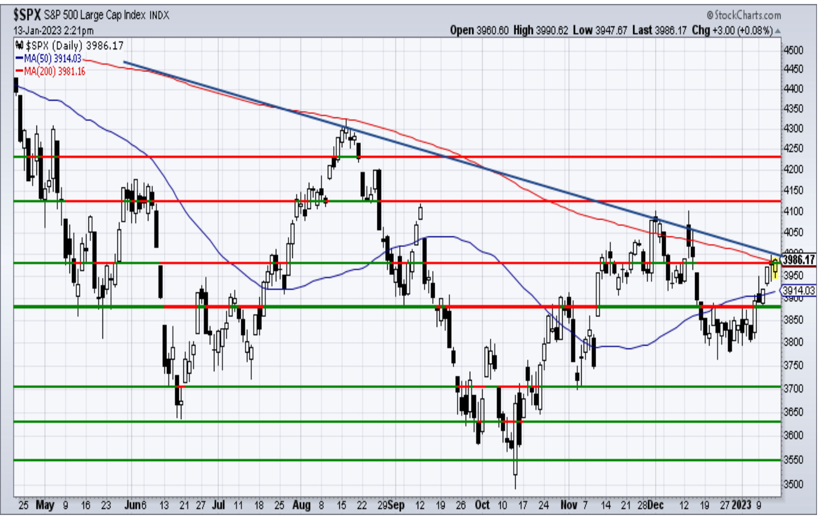
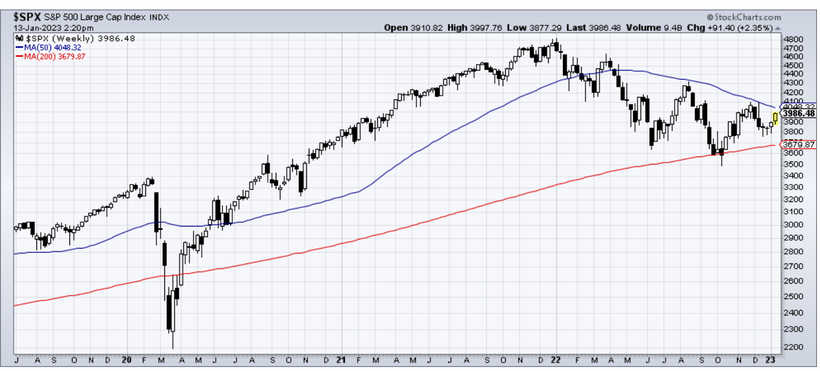


After 2022 ended with a thud, 2023 has started off with a bit of a rally. Since the turning of the calendar, the S&P has gained a little less than 4% and brings the much-followed index back to where it was on December 14th. The December losses have not been recovered but we are getting closer. However, the market is currently overextended and right at very key resistance. The resistance level we are facing now has turned back the market 3 times over the last 6 months. Specifically, the resistance line, the 200-day moving average and the long-term downtrend line all converge around the 4000 level. This is not the time to get aggressive in the market as it is more likely than not that the current rally has just about run its course.



This week we show a longer-term chart of the S&P with a weekly chart. The weekly chart looks much the same as the daily chart. In this chart, we see that the 50-day moving average of weekly prices has turned back any bear market advance over the prior 6 months. We currently sit right below that 50-day average with limited upside before that level is tested. While it is not impossible that we could keep going up, it would take some good news to get us there. Where will that good news come from?

Our Point

The December CPI report came in mostly in line with expectations. The markets had a hard time deciphering the CPI report as the S&P vacillated between up 1% and down 1% before settling up a little. Earning season opened this morning as a few of the big banks reported. JP Morgan, Bank of America, Citigroup and Wells Fargo all released earnings this morning with results mostly better than expected. However, each of the large banks were punished at the open as they noted an increase in loan loss reserves due to worries about an upcoming recession. At this point in the trading day, the big banks have all reversed and are now showing a healthy up day. It is an interesting market to be sure. Earnings will continue to drive the market for the next two weeks before the Fed meets again with another interest rate decision due on February 1st. As noted above, the S&P is nearing a point where previous bear market rallies have stalled. Absent good news it is hard to imagine the market moving much higher from here. Where will that good news come from? Earnings might be a catalyst and the early bank earnings provide some hope that profits might be better than many expect. However, earnings will be negatively impacted by the Fed's tightening – the question is whether or not we will see that effect in these earnings reports or in the next quarter. We suspect that we will begin to see softening in earnings this quarter and more dour expectations for future earnings as companies try to get out in front of any bad news. We won't have to wait long as more banks report next week before a slew of earnings the following week. Volatility is likely to increase significantly as the markets react/overreact to each report. We remain cautious and wary of the current rally – we have seen this play before. If we are wrong, then we will begin layering in more aggressive positions over the coming days/weeks. However, if we are right, we are very comfortable with our current holdings. We made no changes to our portfolio this week and will await more data as we get into earnings season. Just like the market, my Titans struggled into the end of the year with a colossal collapse to miss the playoffs. The upside is I will have a little more time to get some house projects done this wildcard weekend. Enjoy your football filled weekend.