BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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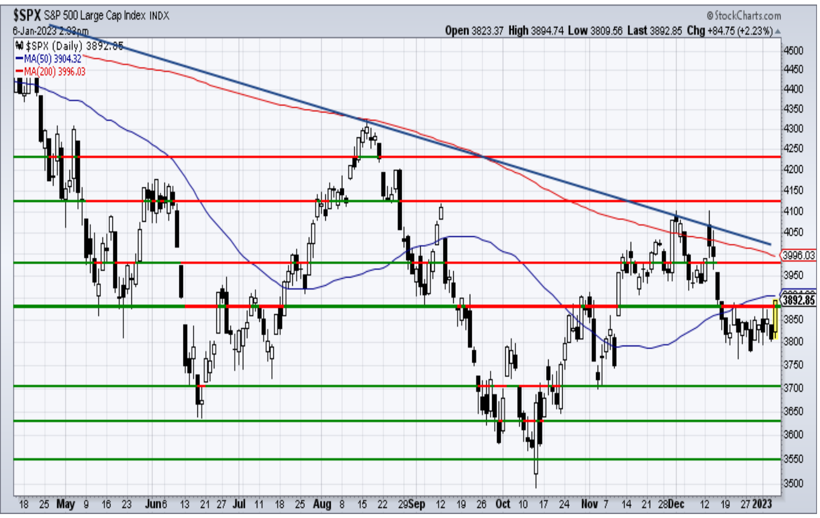

2022 ended with a thud as the S&P index fell nearly 6% in the month of December. 2023 started off this week with sideways to marginally down action. That has changed today, as the index surged on the December jobs report (more on that below). The S&P is currently up 2% today and is bumping up against relatively significant resistance. It will be interesting to see where the market closes today going into the weekend. Holding onto the gains or adding to them would lead to momentum next week while an end of the day sell-off would indicate weakness to start next week. As we mentioned in the last couple of notes, the trading range we are currently in doesn't mean much but a breakout in either direction could set the stage for the next big market move.

We often show high yield bonds in this space and this week is no exception. High yields can often rightly be described as a canary in the coal mine for the markets. Their structure and behavior often show the health of the market and the risks of recession earlier than the equity markets. Currently, high yields are acting very positively, and the uptrend shows little worry of an impending recession. They are but one piece of the investing puzzle but an important one that has our attention despite our reservations.

Our Point

This morning's jobs report sparked a big rally in the equity markets. On the surface, the report itself seemed rather benign if not negative for the markets. The headline jobs numbers exceeded expectations with more jobs created than the consensus estimates. However, market bulls took the underlying decline in wages as a positive sign that would put pressure on the Fed to slow their pace of interest rate increases. We suspect the bulls are jumping the gun… again… and that the Fed won't see enough in the data to appreciably effect any forthcoming decision on rates. Of course, there is much more data to come before the Fed meets again and earnings will be in full swing when the Fed convenes at the end of the month. Next week also brings the December CPI report which will have much more import than today's jobs report. We will have a much better idea of the inflation trend this time next week. After such a weak December, a rally of this magnitude is not unexpected. We'll see if the bulls are still emboldened next week and beyond when earnings begin, and inflation data is released. While there are positive signs (high yields), there remain a number of headwinds for the market to overcome. This is the time of year when all the market pundits and investment houses make their predictions for the current year. It should be noted that nearly all of the predictions are significantly overstated on the positive side and that was certainly the case in 2022. It is no surprise that positive market news sells much more than negative news! Many of the pundits and all of the investment houses are in the investment business and want to keep your assets invested. Negative predictions would not do a good job of keeping your assets at their various institutions. I would advise to take the predictions with a grain of salt and, instead, follow the trends and invest accordingly. Finally, it should be noted that back-to-back double digit loss years has only happened 5 times over the last century. That is not to say that 2023 won't be the 6th, but it would be a rare happening and provides some hope that 2023 may be better than the current headwinds might indicate. Regardless, we will continue to look at the charts and invest when the odds are in our favor. We made no changes in our portfolios and continue to wait for the markets to tip their hands on early opportunities in the New Year. Happy New Year and have a great weekend wherever it finds you.