Bills Asset Management

BAM MARKET NOTE

January 20, 2023

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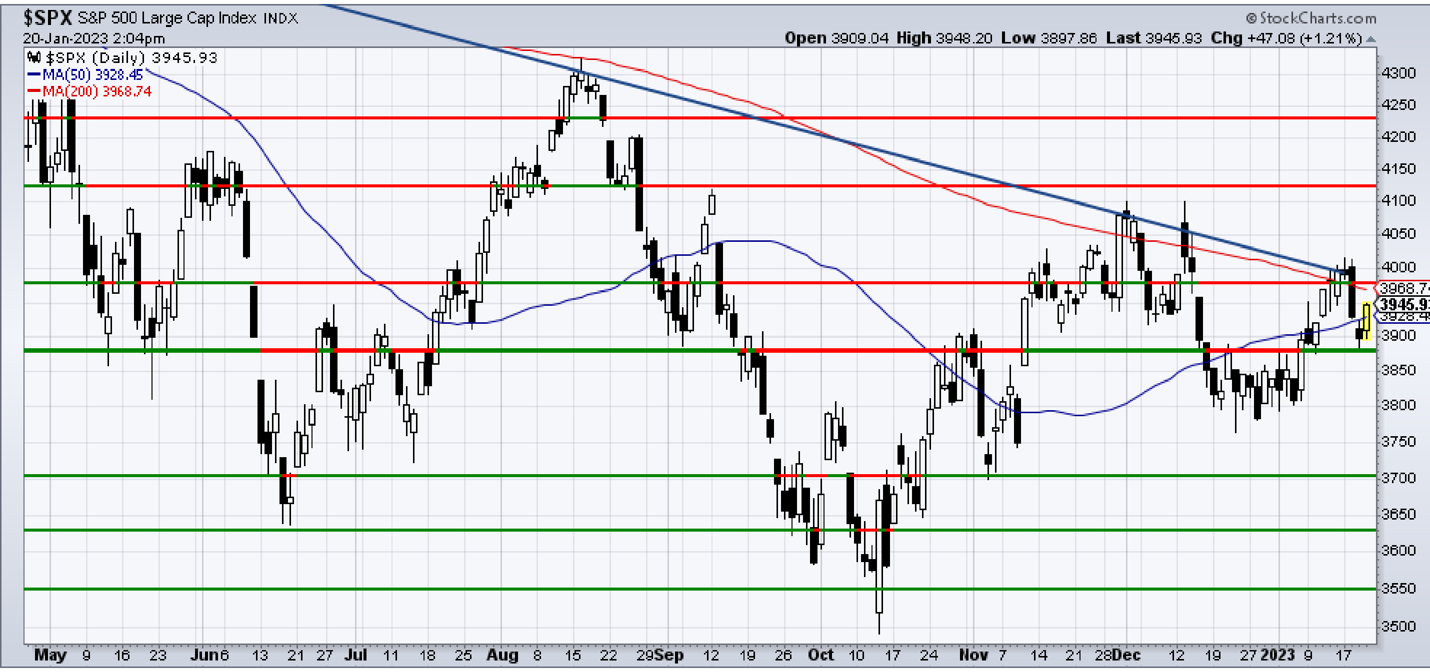

Our Point

As we mentioned last week, the S&P ended last Friday right at significant resistance, and we commented at that time the markets were likely to turn down. After the holiday on Monday, the S&P turned down as expected. To this point, the decline is a pullback in a short-term uptrend. With earnings picking up in earnest next week, we should not have to wait long to see if the pullback turns into a correction of greater magnitude or if it turns out to be a normal pause before gaining momentum again. The answer lies in earnings reports that are unknowable at this time. With the market being turned back at significant resistance this week, it will take some good news to get back to and above that area. After the close yesterday, the market got a little bit of good news as NetFlix reported earnings. While revenues and earnings were in line with expectations, the streaming giant added new subscribers at a rate higher than expected. Additionally, the company anticipates a profit boost in coming quarters due to its crackdown and plan to start charging those that share another user's username and password. I mention this to not only forewarn those of you freeloading off of parents, friends, etc.. but also, to indicate that the results of Netflix might be an outlier in an otherwise challenging earnings season. Many other tech companies won't have the ability to pull forward revenues from sources such as these. Next week we will get the likes of Microsoft, Johnson and Johnson, ATT, Verizon, Tesla, Visa, Mastercard, Chevron, among many many others. It will be the first real broad look at earnings season. Interestingly, a strong market going into the Fed's decision on February will put a little more pressure on Chairman Powell to be more hawkish. The result could be a tampering of any strength going into the end of the month. But I am getting ahead of myself – there will be lots of data points and earnings results over the next week and a half before the Fed makes its announcement. Bonds have perked up this year with a number of issues showing very good risk adjusted returns. We are likely to add to these positions over the coming days. While we didn't make any changes to our holdings as of now, we may well add a new low volatility position later today or early next week. With money markets paying close to 4% yields, we remain comfortable holding a little excess cash in the current environment. Should the market resume its short-term uptrend and make another run to and through the overhead resistance, we will get a little less defensive. Until then, we believe that caution continues to be warranted. A shift in Fed speak or positive earnings could change our view but as always, we will defer to the charts. That means lower volatility holdings in an environment that is likely to get a little more challenging over the coming few weeks. I found myself wearing shorts earlier this week as temperatures climbed into the 60's! Is it still winter? I am sure we will have another cold spell or two, but it was nice to remember that Spring is approaching. Have a great weekend wherever it finds you.