BILLS ASSET MANAGEMENT

BAM MARKET NOTE

BO BILLS (615) 371-5928
CARTER BILLS (615) 585-6867

FEBRUARY 10, 2023

The major indices are taking a breather this week as the S&P is down 1.5% at this moment. Tech and small caps have fared worse as they are down 3% and 4% for the week. The S&P broke support earlier this week. While there is nothing out of the ordinary with a pullback after a strong advance, the bulls will want to put an end to the decline before it goes much deeper. A resumption of the uptrend at this point or just below where we currently sit, would add more weight to the evidence that an intermediate term uptrend has begun. However, further weakness back to the support level around 4000 would largely nullify the uptrend and set the market up for another decline. With a slew of data on tap next week, we should have our answer soon.

The recent decline in high yield is flashing warning signs that the recent rally may not last. High yield has declined over 5% this week which is a huge move in this relatively benign sector. The decline has brought high yields back down to the 50-day moving average. Further declines from here would not bode well for the rest of the market. Investors should be watching this chart for clues on where the market heads next.

Our Point

This week has been relatively quiet on economic news. However, that changes as we get the ever-important monthly CPI on Tuesday, retail sales on Wednesday, PPI on Thursday along with a host of other data points. Each of those releases have the potential to be big market movers. The biggest release however is the CPI print. With the markets thinking the Fed is becoming less hawkish, the CPI will either confirm or refute the market thoughts. A surprise in either direction could lead to another market thrust or a sell off that negates the recent uptrend. We should know a lot more about the veracity of the rally that started in early January at this time next week. Traders that entered the year wrongly positioned will likely begin adding equity positions on any resumption of the rally. The result will be another leg up in the rally. However, a failure by the bulls to regain control of the market will lead to a round of profit-taking that would lead the market lower supporting the position by some that the recent rally is nothing more than a strong bear market rally. We have been here before. At some point, the bulls will keep control and a new bull market will emerge. We aren't there yet but a correction followed by new 2023 highs would add much evidence to support that position. Again, high yields will likely provide many clues to whether or not we have put the bear market to bed or if there is more pain ahead. There is much to evaluate and a fair amount of noise in the market, but we should get more clarity over the next week or two. Earnings have begun to slow so economic data will take a front seat again. We made no changes to our portfolio holdings this week. We still have some cash on hand and will be putting it to use on a resumption of the uptrend. Should the markets continue down, we will begin selling positions that hit their sell-stops. It is sometimes difficult to be patient, but we are at a near-term critical juncture. We'll see what next week brings. In the meantime, we are looking forward to Super Bowl Sunday. While I have no preference on who wins the game, I will be watching and hoping for a fun and exciting game. If nothing else, it is a great excuse to have some great game snacks! Here's hoping your weekend is Super and that your team wins.