Bills Asset Management

BAM MARKET NOTE

March 17, 2023

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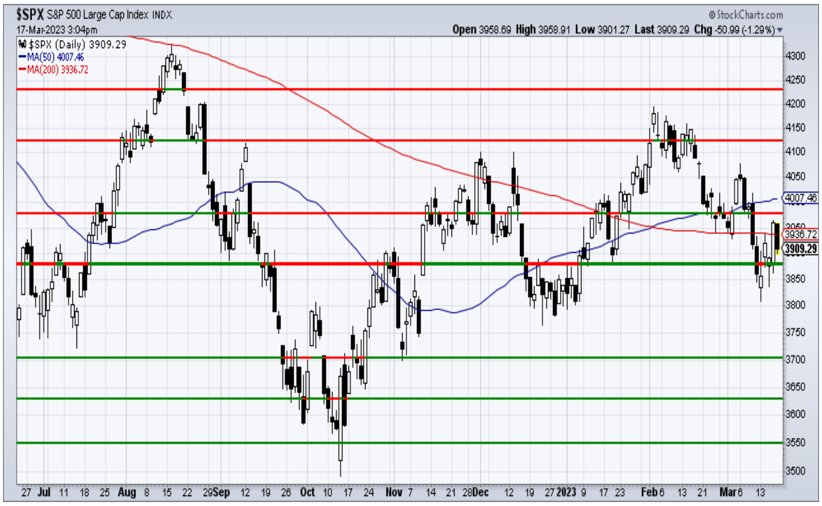
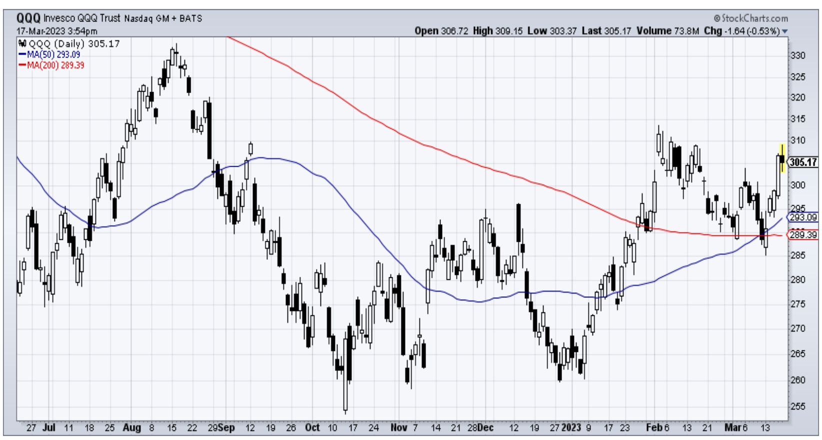


Despite the turmoil in the banking sector, the S&P looks to finish the week in the black. It has been a crazy week. As of this hour, the S&P is down 1.2% for the day but up a little over 1% for the week. After falling through support around the 3900-level last week, the bulls made a stand and re-took that level and surged above the even more important 200 day moving average. That level is now the new battleground and will serve as support/resistance until either buyers or sellers get the upper hand.



While the S&P has significant representation of financials among their 500 companies, the NASDAQ has much fewer. Accordingly, the weakness in financials has not affected the tech index nearly as much. After the initial sell-off last week, the NASDAQ has surged this week. Perhaps, investors are betting (again!) that the weakness in the financial sector will force the Fed to pause and/or cut interest rates sooner than expected which would benefit the capital hungry growth stocks represented in the NASDAQ.

Our Point

Rarely a dull week in the markets! March madness can be found on TV as well as on Wall Street. Fears of a contagion of bank failures has subsided a bit as the Fed has stepped in. While they say they are not bailing out the banks, they are and ultimately taxpayers will foot the bill. In any event, the bleeding has stopped for now, but risks remain for the financial sector, and it is very possible that more bank failures will occur over the coming weeks and months. The rally in the markets this week seems driven by hopes of the Fed pausing their interest rate hikes. The odds of a 50-basis point hike which was more likely than not a little over a week ago is now much lower as the markets bet on a 25-basis point hike and language by Chairman Powell that indicates that pausing/cuts are much closer than originally projected. With the Fed meeting next Tuesday and Wednesday, investors won't have to wait long to find out. The Fed remains in a tough place of their own making. Inflation measures this week gave the Fed little cover as they came in as expected. That means inflation remains stubbornly high and is not falling. That said, inflation has stabilized and may begin to fall as prior rate increases continue to work through the economy. The failures of SVB and Signature bank are the first of what is likely to be more indications that the Fed's historic interest rate hikes are having detrimental effects on the economy. With the failures, the odds of a hard landing have gone up significantly. What will break next? That question is why risk remains very elevated. If the Fed succumbs to political and business pressure to ease too soon, inflation could accelerate again and will be much harder to contain the second go around. Raise too much and more things break. It is a quandary that is not an enviable position. We made no changes to our holdings this week as we await more information. Our positions have held their own but that could change. If it does, then we will take appropriate action. Patience is definitely a virtue. For me, this weekend is my favorite of the year with March Madness in full swing. I will be enjoying lots of games over the next 2 days. Go Vols. Enjoy your weekend.