Bills Asset Management

BAM MARKET NOTE

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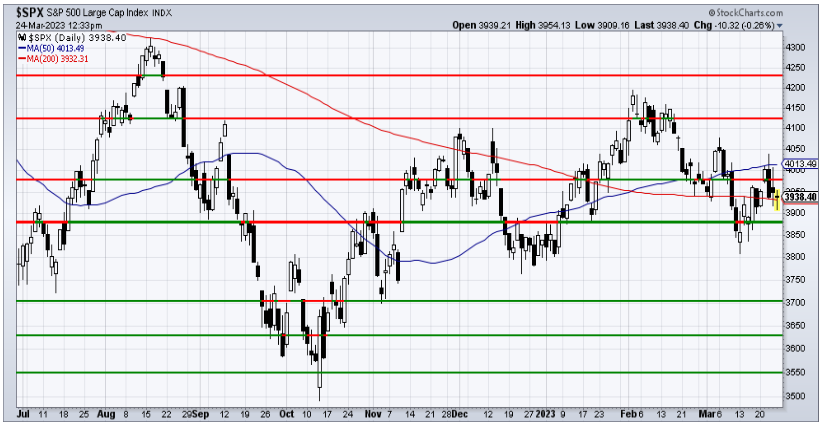
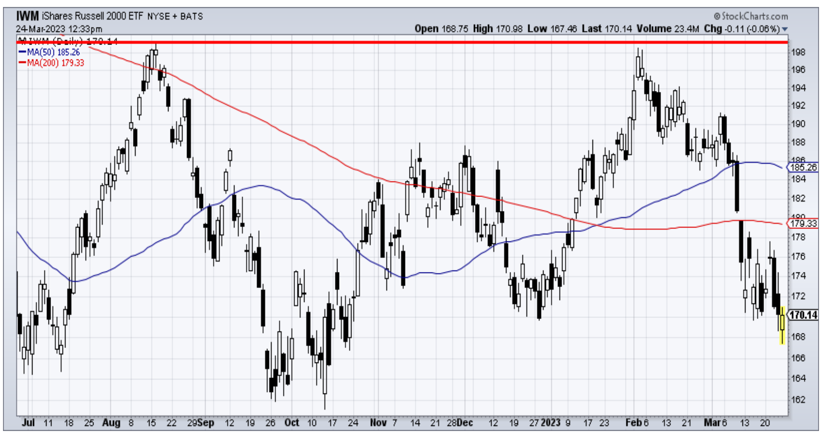
March 24, 2023





For the second week in a row, the S&P looks to finish in the black. As of this writing, the large caps look to finish up about a ½%. Though the banking crisis that began two weeks ago still remains in the headlines and in some cases worsening (especially in Europe), the market has mostly taken it in stride. The S&P has vacillated all week between the 50 day and 200 day moving averages. The tug of war between the bulls and bears is likely to be resolved quickly as one or another will soon win out. Despite the relative calm in the market, risk is elevated in the near-term and investors would be wise to proceed cautiously.

We highlighted the strength of the NASDAQ last week and will turn our attention this week to the small caps. While the S&P and NASDAQ have weathered the recent storm relatively well, the small caps have fallen precipitously. Small caps have long been market leaders (in both good times and bad). Accordingly, the divergence in small cap performance vs the larger caps is something to watch. The divergence won't last long and one or the other will play catch up. That could either mean a significant rally to the upside in small caps or a significant decline in the large caps.

Our Point

Fed day has come and gone, and the market reaction was mundane and muted. As widely expected, the Fed raised rates another quarter percent. The language in the press conference that followed gave something for both the bulls and the bears. Chairman Powell reiterated the Fed's hawkish stance on fighting inflation while also tipping his cap to the potential for changing circumstances that would leave the Fed more dovish. The result was the Fed talking a lot but not really saying much. However, the market did take heed of what Treasury Secretary Yellen said at about the same time. In her competing comments, Secretary Yellen stated that there was no widespread plan to backstop the FDIC $250,000 limits for any bank failures. The markets reversed course and fell sharply for the latter part of Wednesday afternoon. The market obviously did not like contemplating another bank run. The bigger issue for banks currently is the flood of money leaving their vaults not solely because of fears of bank failures but rather on investors seeking the higher interest rates afforded by money market accounts held at investment brokerages. While banks are continuing to pay paltry interest rates on savings, money market accounts are offering very competitive interest rates of 4% or more. The combined effect of reduced confidence in the banking industry and low interest rates could very well lead to more bank failures as bank withdrawals exceed the reserves on hand. After falling for several months, the Fed balance sheet is increasing again as more and more banks are accessing the Fed discount window and borrowing more and more money. This issue is not going away any time soon and there will be more turmoil in the weeks and months ahead. First quarter earnings are right around the corner and investors will have a new set of data to parse over the coming several weeks. While the markets have been resilient, there remain a number of things that could go wrong. We prefer to sit this out until there is a bit more clarity. We made no changes to our portfolios and remain overweight money market funds. The few positions we have retained are holding up well. As always, we will respond as market conditions warrant. For now, that means waiting. With my brackets busted and the Vols folding, March Madness becomes a little less interesting. I will still be watching games this weekend but won't be quite as intentional. Have a great weekend, enjoy the warmer weather and may your basketball favorites win!