Bills Asset Management

BAM MARKET NOTE

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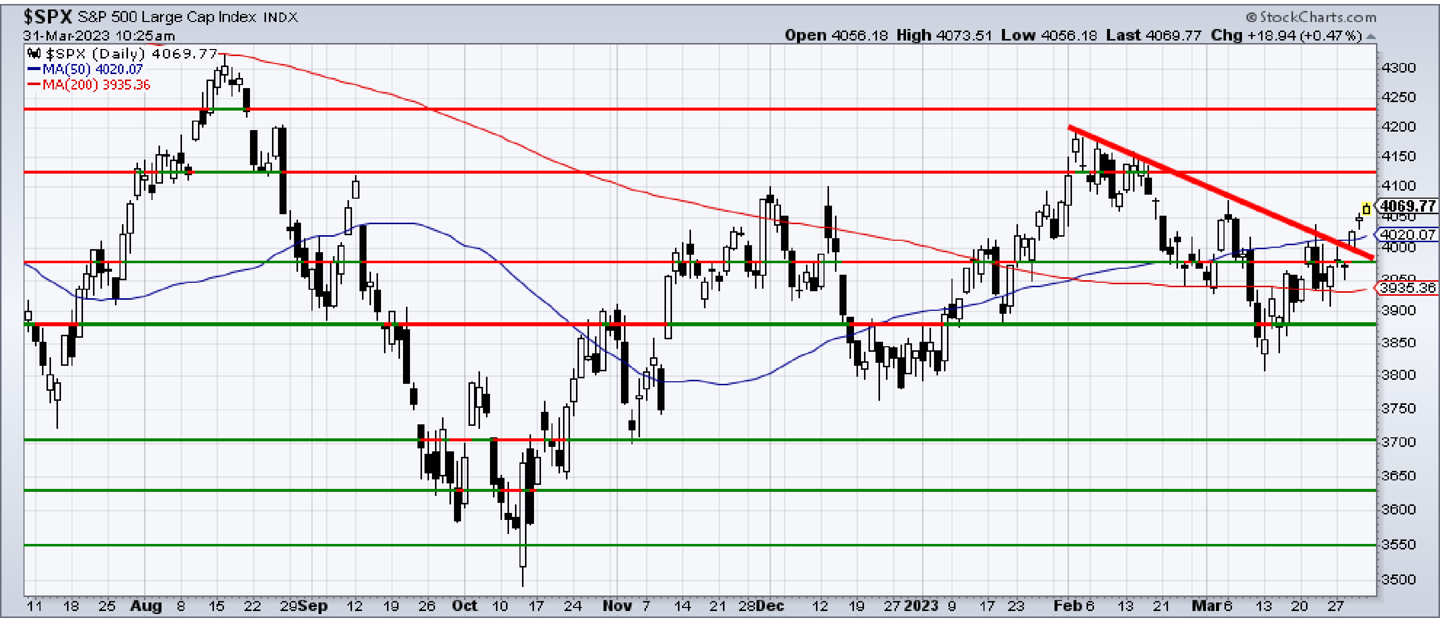
March 31, 2023



Our Point

The back-and-forth battle between the bulls and the bears continued this week as investors took the bull by the horns and pulled it up above the downtrend line (red down-sloping line) invalidating (for now) the downtrend that started in early February. Additionally, the 50-day moving average was recaptured on Wednesday, continued up on Thursday and has added to the weekly gains so far today. We will see where we close today but the S&P looks to log gains of more than 2% for the week. The market is getting a little over-extended and overbought in the short-term so a profit taking decline is likely over the next week or two. The character and depth of that decline will tell us much about the conviction of the market. Should the 50-day moving average and the down-trend line provide support on any decline, then it will be positive evidence that more gains are possible. With that said, resistance around 4130 and the highs in late January (around 4180) will be more upcoming areas to watch. With Fed interest rate decisions out of the way until May, earnings will be in focus over the coming 4-5 weeks. The sharp increase in interest rates over the last year have now had time to start moving through the economy and will begin having a real effect on earnings this quarter and next. The extent of that effect will largely determine the course of the market over the remainder of this year and beyond. The issues in the banking sector have not gone away and will most assuredly resurface over the coming weeks. Inflation has moderated and this morning's PCE report showed a small decline that failed to move the market in either direction. The consensus on Wall Street is that the Fed is mostly done but could have one more 25 basis point hike left. With hikes in the rear-view mirror, attention will turn to the next cycle of Fed easing. The rally in the markets is largely contingent upon the thinking that the Fed will begin easing sooner rather than later. That assumption may be disappointing as inflation remains sticky and will be difficult to achieve without a more significant slow down in the economy. We think the markets are getting ahead of themselves but what we think rarely matters when it comes to Wall Street! We will continue to follow the charts. The charts are looking better and better but we will want to see the next pullback after the recent rally before considering committing new money to the markets. We made no changes to our portfolios this week and remain 40-50% invested with the remainder in high-yielding money market accounts. While some are calling the end of the bear market that started last year, we are not yet convinced. Bear markets are notorious for large rallies in the midst of a declining market. The current rally looks no different than previous rallies that ultimately failed and led to lower prices. We have no way of knowing if this is the start of a new bull market or just another bear market rally – nobody does! However, we can react to what the market is doing and respond accordingly. Positive evidence is building but it always does near the end of a bear market rally. Caution remains warranted. That said, we will continue to look at the charts and invest when the odds are in our favor. We are not there yet. It looks to be a stellar weekend as the first vestiges of Spring continue to appear. Enjoy some fresh air and have a great weekend.