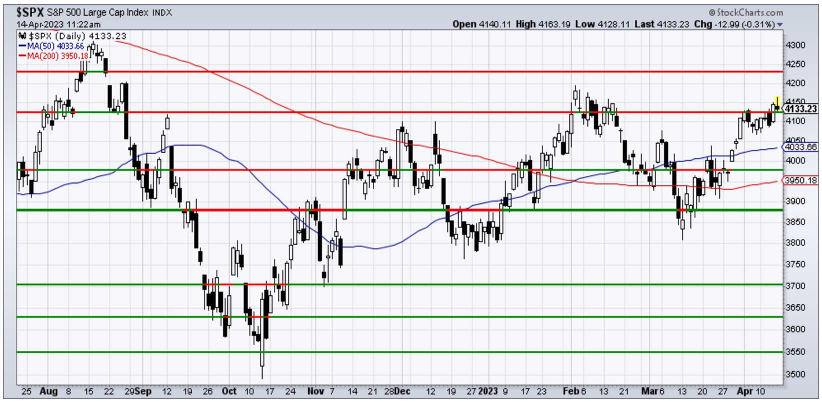
BILLS ASSET MANAGEMENT

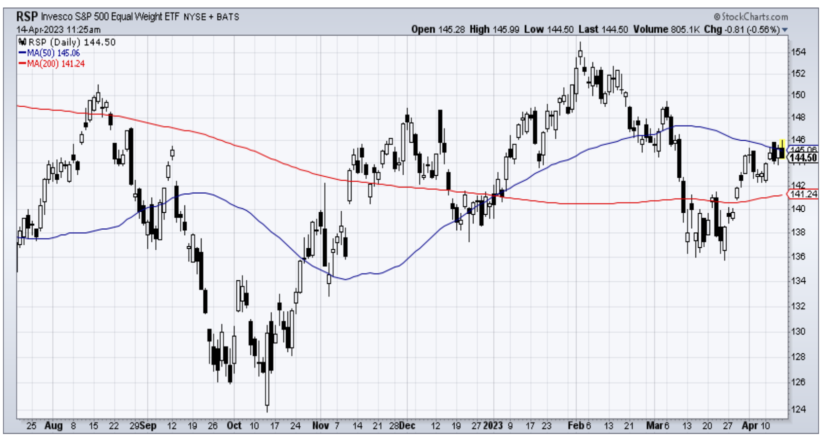
BAM MARKET NOTE

APRIL 14, 2023

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



After a brief and not so significant correction, the S&P headed back up this week. The gains are small (.5% as of this writing) but a gain is a gain. More importantly the resistance at the 4125 level was punched through yesterday. The level is holding today but just barely. It will be important for the markets to hold this level or risk a more significant correction. With earning season afoot, the market will have lots of data to determine which way to head next. The February high at 4200 lies just ahead and will provide more resistance for the market in the near term.



As mentioned last week, the largest of the large caps are carrying the load on the rally thus far in 2023. For the rally to continue and to have staying power, the rest of the market will need to join in. The chart of RSP (equally weighted S&P 500) illustrates the effect that the largest companies are having on the market. While the cap weighted S&P 500 is well north of the 50-day moving average and approaching its February highs, RSP is facing resistance at its 50-day moving average and is far from reaching its February highs. The lack of participation by the bulk of the market is concerning.

Our Point

There was lots of inflation data released this week as both the monthly CPI and PPI were reported. The reports showed a continued slight decline in inflation and were mostly met with yawns by traders. Regardless of the data, the market is banking on the Fed raising rates one more time at its next meeting and then pausing. The thought has merit as the recent banking crisis and has created a credit tightening among banks and will do the work for the Fed. If there is a silver lining to the banking crisis, putting the Fed on the sidelines might just be it. The growing feeling that the year long Fed policy of rising rates is coming to an end has been good for bonds. As you know, bond prices increase when rates fall and vice versa. With falling rates becoming more likely over the next 12 months, bond prices have begun to rise. Earnings season started this morning with the release of some large bank earnings. JP Morgan, Citigroup, and Wells Fargo all reported strong earnings and, more importantly, provided optimistic guidance for the rest of the year. All 3 stocks jumped at the open, but JP Morgan is the clear leader today with gains of over 7% this morning. In the banking sector, the large banks have not been the issue and, in fact, have benefited from the crisis with depositors moving money to the big banks and with the Fed providing liquidity to them. We'll get a much better read on the banking crisis when the regional banks begin reporting over the next couple of weeks. Hedge funds are currently sitting on their largest net short position (betting that the markets will fall) since 2011. The significance of this can't be overstated. Should the market continue up, the shorts could be flushed out forcing the hedge funds to cover their shorts by buying the S&P. The short squeeze could provide a huge lift to the markets. However, should the markets fall from here, the hedge funds will prove prescient and will reap large gains. Who will blink first? Wall Street or the hedge funds? With earnings season beginning someone will blink soon. As we mentioned last week, we were considering adding to our holdings and we did just that. We bought positions in municipal bonds and high yield municipal bonds. With the interest rate hiking cycle likely coming to a close, bonds should continue to be a beneficiary. With the markets stretched to the upside (they can become more stretched) and nearing resistance, we have chosen to wait on adding equities to our holdings. We'll wait to get a read on earnings before committing new capital to equities. Spring has sprung and it looks to be a gorgeous weekend. Get outside and enjoy some sunshine (after you finish your taxes of course).