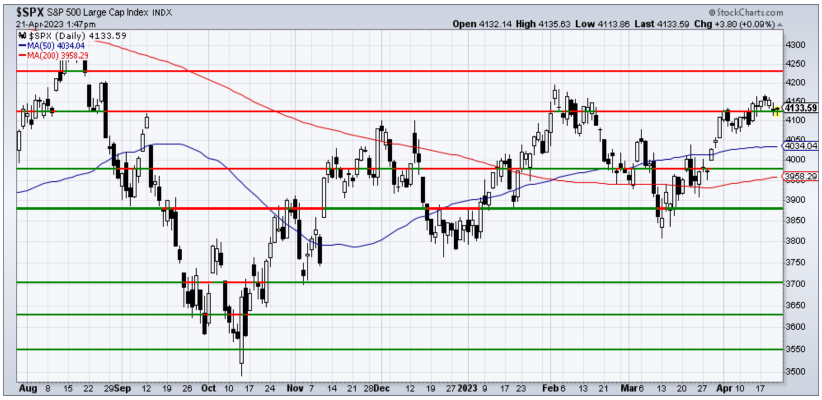
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

APRIL 21, 2023

BO BILLS (615) 371-5928

CARTER BILLS (615) 585-6867



The S&P went nowhere this week as it is just 3 points from where it started the week. Despite earnings season starting the market has not wanted to make any big moves. The index remains right at support as traders try to determine whether or not to buy or to sell. With the markets consolidating here, the next move has added significance. A confirmation of support could lead to another push higher towards the February highs or beyond. However, a break below support could lead to a significant decline back to the 50-day moving average or below.

The relative relationship between consumer discretionary and consumer staples has weakened since the February high and is in an established downtrend. In most cases, a strong and sustainable rally will see consumer discretionary with relative strength over consumer staples. The fact that staples are outperforming discretionary provides evidence that the March rally is not a risk on rally and may have run its course.

Our Point

Many of the large banks have reported over the last two weeks and have provided some optimism that earnings won't be as bad as many expected. Earnings for other industries/companies have not been so favorably received. However, the real market movers will be reporting over the next two weeks. We'll get earnings from Microsoft, Google, Meta and Amazon next week followed by Apple the following week. With each of those companies having an outsized effect on the major indices, we will most likely have resolution on the S&P trading range next week. The debt ceiling debate took on added significance this week. Reported initial tax receipts were less than expected providing a little less cushion for the government before it is forced to raise the debt ceiling or risk default. The Republican House has floated their debt ceiling bill, but the White House has called it a non-starter and negotiations are going nowhere fast. It remains very unlikely that a US government default will happen but the longer this plays out the more nervous the financial markets will become. A month or so ago it was deemed that the debt ceiling would need to be raised sometime in July or August. However, current estimates (taking into account the reduced tax inflows) has pushed the deadline likely sometime in June. That doesn't leave much time for Republicans and Democrats to close the large gap between the two sides. Add in a narrow Republican majority in the House and it makes the challenge even greater. While a deal is likely, it will almost assuredly come down to the 11th hour and provide some nervousness for the markets. With the market already stretched a little to the upside, a debt scare could easily be a catalyst for more sustained selling. That will all play out over the coming month or two. In the meantime, we need to get through earnings season. We made no changes to our portfolio holdings this week. Municipal bonds pulled back a little this week as some profit taking took hold. They held at support, but further declines would have us rethinking our holdings in this area. I will be traveling next Friday so Carter will be lending his market wisdom to these pages. Have a great weekend.