Bills Asset Management

BAM MARKET NOTE

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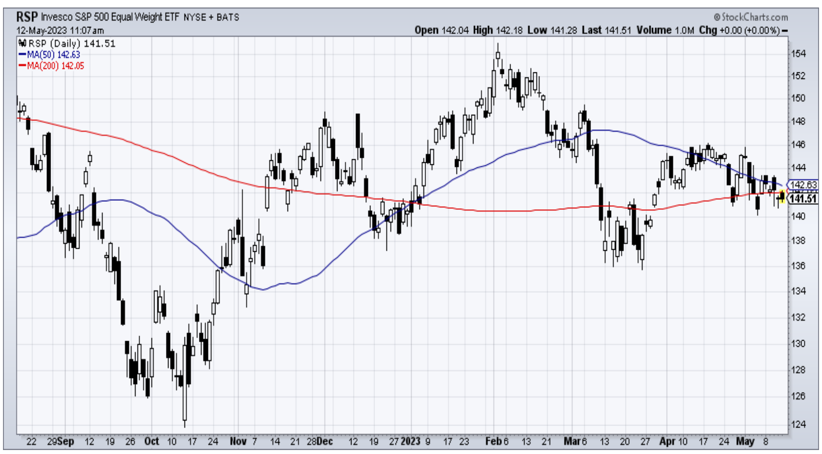
May 12, 2023

The S&P traded sideways this week within a very narrow range. Going back to the beginning of April, the large cap index has clustered around support/resistance at the 4120 level. Neither the bulls or the bears can muster enough momentum to turn the tide in either direction. The longer the index stays at this level, the more significant it becomes. The next break (either up or down) will be a significant indication of the health of the market.



We've mentioned over the last several weeks, the lack of breadth in the market. Just 10 stocks (out of 500) have accounted for nearly all of the S&P gains this year. While the S&P 500 is cap weighted, the RSP is equal-weighted, and each stock is accounted for the same regardless of size. Accordingly, it can be a good measure of market breadth and the health of the market. While the S&P has traded mostly sideways since January, the RSP is down over 8%. It is an indication that a large majority of the stocks comprising the S&P 500 are in a downtrend. Should the 10 stocks that have been carrying the load falter, we could see a very sharp drop.

Our Point

Inflation data came in this month right where expected. While inflation didn't decline in any significant way, it did not go up and is falling slightly. The data provides fodder for those calling for a Fed pause on rates. We'll get another reading of inflation and another jobs report before the Fed meets next. The Fed Funds futures indicate an 83% chance that the Fed pauses in June and leaves rates where they are. Interestingly, the futures have priced in interest rate cuts as early as the July Fed meeting and indicate a 67% probability of an interest rate cut at the September Fed meeting. While the markets might initially cheer a Fed funds rate cut, the reason for any such cut will likely be a very slowing economy that could be a drag on stock prices. As mentioned above, breadth continues to be a real issue. More stocks will need to join the party for the market to move decisively through the current levels. The debt ceiling debate continues on with little in the way of progress over the last couple of weeks. President Biden and Speaker McCarthy did meet earlier this week but reported little progress. At least there is some talk. We continue to believe that a deal will get done before any default but the closer we get to the edge of the cliff the more nervous the market will become. As of now, the markets are not showing much concern. In the current environment, there is little reason to be overly optimistic or pessimistic. The market could break either way so we will wait patiently for the indices to tip their hands. We sold two positions this week as they were moving sideways, and we saw more opportunity in money markets. Additionally, it will be nice to have readily available capital for when the market makes its next move. We continue to evaluate our holdings daily and stand ready to make changes as market conditions dictate. Carter and I spent the first part of this week at the annual NAAIM investors conference. It is an organization that I have been involved with for over 20 years and I always walk away with a few ideas. This year was no exception, and it was good to see so many friends and peers from all over the country. With Mother's day on Sunday, get those cards in the mail and reserve some time this weekend to let mom know how much you love and appreciate her. Happy Mother's day to all the moms and a good weekend to all.