BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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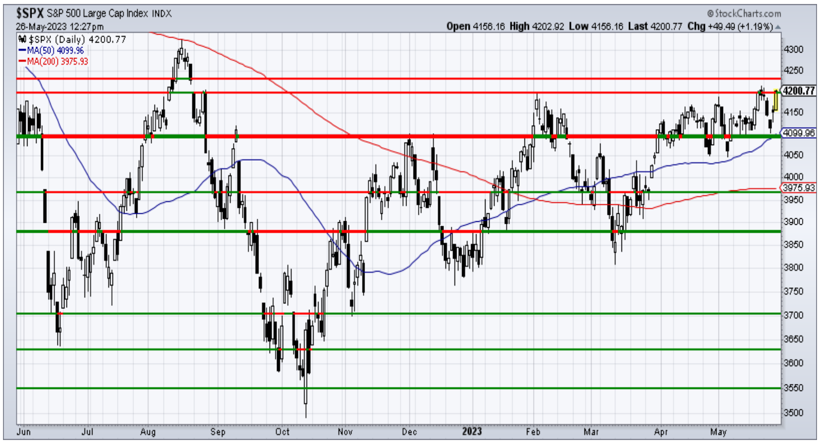

As we noted last week, there would likely be some volatility leading into the US debt ceiling deadline. The markets did not disappoint and would be much lower had it not been for the blockbuster Nvidia forecast (see below). As it stands, the market went nowhere this week despite a mid-week swoon. The S&P is right where it started the week though we could fade into the close today with a long weekend and debt ceiling negotiations ongoing. We continue to believe that the debt ceiling will be resolved, and any movements (up or down) will quickly reverse as the market returns its focus back to the Fed, inflation and recession prospects.

We shared this same chart a couple of weeks ago and show it again today to illustrate the drastic difference in performance for the "average" company in the S&P 500 vs the largest of the large caps in the index. While the cap weighted S&P chart (above) looks relatively healthy, the equal weight S&P chart is in a well-defined downtrend. As long as this is the case, it will be hard for the market to add to its gains. Until the rest of the market wakes up, risk remains to the downside.

Our Point

The bifurcation of the market haves and have nots only increased this week. The AI craze that we spoke about last week was in full view this week as Nvidia reported their earnings. While the quarterly earnings and revenues were lackluster or at least mostly in line with expectations, the company's rosy forecast for future quarters stunned the market. As a result, shares of Nvidia spiked up by 25%!! To put the jump into perspective, the gains increased the market cap of Nvidia by $220 billion. The one day increase in market cap is bigger than the market caps of 473 of the 500 stocks in the S&P 500! It was a stunning one-day gain that has held over the last two days. The AI boom that has captivated tech investors is alive and well. The display has some semblance to the dot.com bubble of 1999 and 2000. As you may remember that did not end well as Nasdaq shares fell 80% over the ensuing couple of years. That said, this bubble could continue for longer than many expect. However, the pace of the current advance is unsustainable and will likely slow in the coming weeks and certainly months. There is no doubt that the prospects of artificial intelligence is exciting (scary too!), and there will be winners and losers as market share and performance is sorted out. Nvidia now has a Stock Price to Earnings ratio of 175. In comparison, the shares of the other large cap tech bellwethers are 29 for Apple, 34 for Microsoft, 27 for Google and 29 for Meta (Facebook). While the largest of the tech companies have prospered, the rest of the market is feeling the effects of a slowing economy. Speaking of the economy, economic releases this morning were stronger than expected and puts unexpected pressure on the Federal Reserve to continue its rate hiking cycle. After the release, the prospects of a 25-basis point hike in June jumped to 55%. A few weeks ago, the market was pricing in a pause in rate hikes and actual interest rate cuts later this year. There are still several economic reports due out before the Fed meets next. What those reports say and how the Fed responds will likely determine whether or not the rest of the market joins the tech AI craze. Our family has been fortunate since none of our relatives have lost their lives in the service of our country. However, we recognize and honor all those families that have. Without their sacrifice, we would not enjoy living in the greatest country in the world. Thank you. Enjoy your long Memorial Day weekend and take a pause to remember all those that have died for our freedoms.