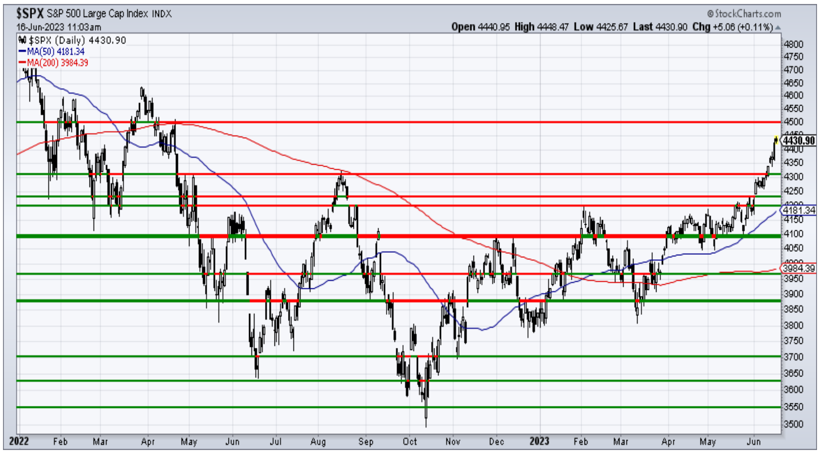
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JUNE 16, 2023

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



We mentioned the change in market environment last week and this week only confirmed the increasing breadth of this market. For the first 5 months of this year, market gains were centered on 7-10 stocks. However, over the last 2 weeks more and more companies have joined the party. The broadening of the rally is very encouraging. The major indices are getting stretched to the upside and are ripe for a profit taking correction. The depth and duration of any correction will determine if this is a new bull market. While the jury is still out, the evidence at current suggests that pullbacks should be bought and not sold.

While high yields have not moved nearly as much as the major indices, they have strengthened and remain above their 50-day moving average. The behavior of high yields suggest that the market is discounting any upcoming recession. While that can change over the coming weeks, the behavior suggests that, at this point, the bond market believes that the Fed has done a good job of threading the needle and that a soft landing is possible.

Our Point

The drama surrounding whether or not the Fed would raise rates at this week's meeting quickly dissipated as the CPI and PPI inflation numbers came in Tuesday and Wednesday mornings. While the numbers still show inflation running high and sticky in some areas, the headline numbers continued to slowly decline. Had there been an increase in the numbers, the Fed would have felt much more pressure to raise rates. The Fed announced Wednesday afternoon that it would pause its interest rate hiking schedule and would look at the data for the next meeting in July. Interestingly, Fed futures are now predicting 2 more 25 basis point rate hikes over the next two meetings (July and September) - bringing the terminal Fed Funds rate to 5.6%. The seemingly bad news for the markets was met with enthusiasm as markets initially sold off on Wednesday before catapulting higher on Thursday. The gains are holding to this point today lending credence to the fact that the market environment has changed. While we continue to see lots of storm clouds on the horizon, there is no arguing with price and this market seemingly just wants to go up. It should be noted that despite the big tech rally this year, both the S&P and Nasdaq are still a ways away from recovering from last year's losses. The S&P remains down 7% from January 2022, while the Nasdaq is still off by over 12%. It is a reminder that losing money in down markets is very bad! Those investors that managed to avoid the lion's share of losses last year can afford to be a little cautious this year. The markets continue to be overbought and are ripe for some sort of correction. As we enter the summer months, it would not be surprising for the market to pull back a bit and digest some of the earlier gains from this year. We have no idea whether or not the correction will be constructive and just a bump before another leg higher or the start of something more damaging. As always, we will follow the charts and try not to let our feelings about what we think the market should be doing determine our investments. As mentioned last week, we purchased a number of new positions. Leading into the Fed meeting, we determined to hold what we have. We still feel that way but could add new positions on pullbacks that hold above support levels. Happy Father's Day to all the dads – make sure those cards are in the mail and that you give your favorite dad some appreciation this weekend.