# Bills Asset Management

## BAM MARKET NOTE

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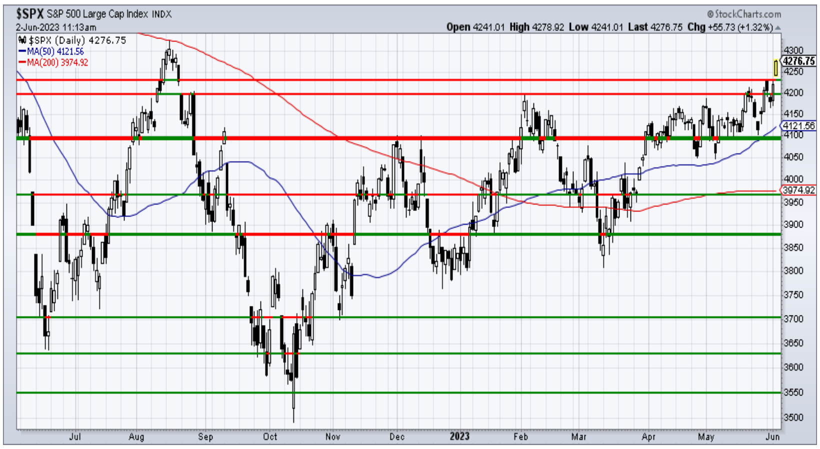
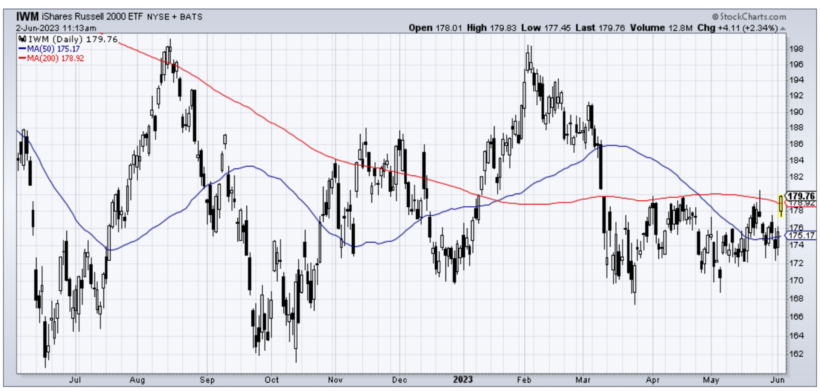
**June 2, 2023**




Up until this morning, the S&P had traded mostly flat for the week. With the debt ceiling debate ongoing, traders were waiting for a resolution before making any big bets. Resolution came last night as the Senate passed the House bill and it goes onto to the White House for the President's signature. Based on today's rally, there were a number of traders that were short the market and have been forced to cover on a resolution of the debt ceiling. Today's rally is impressive by any standard, but it is not likely to last. The August highs are now within reach. We will see next week if this is a break-out or just another fake-out.




We continue to see a big contradiction and bifurcation when you look at the cap weighted large cap indices (S&P and Nasdaq) versus the broader indices that represent the "average" US company. The Russell 2000 is in a downtrend. Though bouncing today, it remains in a downtrend and right at significant resistance. If the Russell can hold these gains over the next week, there may be a trading opportunity. We are not holding our breath, but this market has a mind of its own.

# Our Point

As we have discussed over the last several weeks, we believed that a debt ceiling compromise would be reached by the two ever-increasing divergent political parties. Such agreement was made last night as the Senate passed the House bill and it goes onto the White House for ratification. The debt ceiling debate is concluded (though it will return in two short years!). Today's market rally illustrates that many traders were worried that a compromise would not be made as there is lots of short covering on the completed deal. It is likely that today's gains will be short-lived. One of the consequences of the new debt ceiling deal will be the backed up new issuance of treasury bills to fund the government. That will happen over the next few weeks and will drain liquidity from the market. It is estimated that the new issuance will have the effect of a 25-basis point hike in interest rates. Meanwhile, today's job report showed a surprising increase in new jobs. While estimates were for net job gains to be 195,000, the number came in at 339,000. The report was not all roses as the unemployment rate increased. The positive report puts new pressure on the Fed to reconsider its anticipated June pause in rate hikes. After the report, fed futures rose showing a greater likelihood of a June hike. However, the Fed will likely make its decision the week after next as we get the all-important CPI and PPI reports. The reports will be coincident with the Fed meeting so they will be very timely. While inflation remains very sticky and has mostly stood at current levels, the Fed is under increasing pressure to pause and hold the current line. AI mania continues to dominate as the few companies in the S&P and Nasdaq that play in that space continue to significantly outpace the rest of the market. How long can that mania continue? We have no idea. However, the rally is certainly getting long in the tooth and will correct at some point. The behavior certainly brings back memories of the tech fueled rally in 1999 that led to the collapse in 2000-2003. Will history repeat? Again, our crystal ball is a little cloudy, but history does have a tendency to rhyme. It will be interesting to watch. As it stands now, we remain committed to portfolio protection and would rather not chase an unsustainable rally when other technical indicators continue to flash caution. Obviously, that could change. If it does, we will certainly adjust our thinking. In the meantime, we made no changes to our holdings, and we will await more confirmation of a healthy market environment. Have a great hot and humid weekend!