BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JUNE 23, 2023

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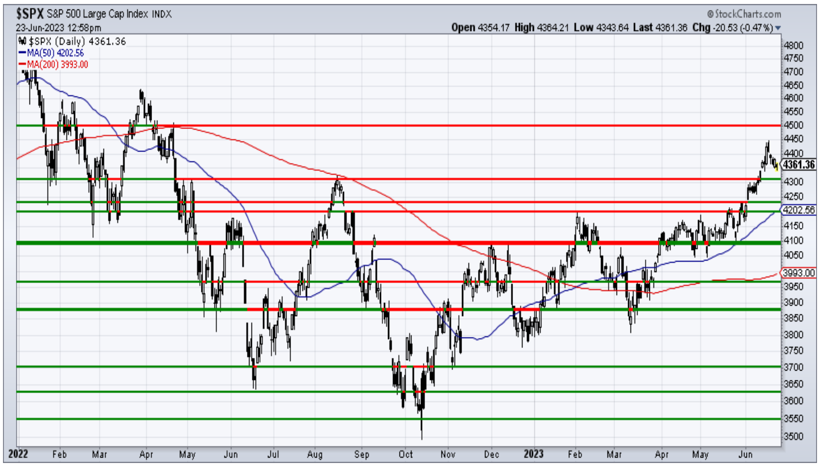

We mentioned last week that a pullback was probable, and we have had a small pullback this week. At current, the S&P is down a little over 1% for the week. The decline has been mild thus far and has done little to relieve the overstretched nature of the major indices. Over the coming weeks, the market is likely to have at least a 5-10% correction. At this point, it is unclear if the current mild weakness is the start of that correction. Regardless, I wouldn't chase this rally at these levels. A correction that holds above support levels will provide a much better entry point for equity positions.

We also mentioned high yield bonds last week and noted their strength. This week, however, they fell back below their 50-day moving average. They are still well above their late May lows, so it is not particularly alarming or concerning. It is something to monitor as weakness in this important class often precedes more pronounced declines.

Our Point

After the plethora of data last week, it has been a mostly quiet week from a news standpoint. Chairman Powell did testify before Congress this week and reiterated his belief that more rate hikes may be necessary to tame inflation. It is currently widely expected for the Fed to resume its rate hike cycle next month and probably at the following meeting. Despite the hawkish tone, the testimony did little to rattle the markets. Powell also touched on the banking crisis and indicated that new rules impacting the level of capital required by banks likely would not apply to smaller banks. That is good and bad news as the application of the rule could stress smaller banks. However, not having increased capital requirements also makes the smaller banks more susceptible to the exact thing that happened earlier this year. Regional banks took a leg down on the testimony. Next week will bring the end of the month and the second quarter. It will be another relatively quiet week before the June jobs report the following week and the beginning of earnings season the week after that. Quarter ends often provide some volatility as mutual funds and others rush to dress up their holdings – getting rid of losers and adding winners to show their investors they are holding the "correct" positions. We haven't mentioned the VIX in a while, but it is at very low levels. The level indicates a great deal of investor complacency. A low VIX is not necessarily a bad thing but with the many things that could go wrong in this market, it does indicate that investor complacency and overconfidence could quickly reverse given the right catalyst. Trading volume will begin to dry up a bit as traders head to the beach which will have the effect of accentuating moves in either direction. We made no changes to our portfolio this week but are close to reaching a sell point on a couple of our equity positions. Despite the headline returns of the indices, it remains a challenging market. We appreciate your trust and your readership. Have a great weekend!