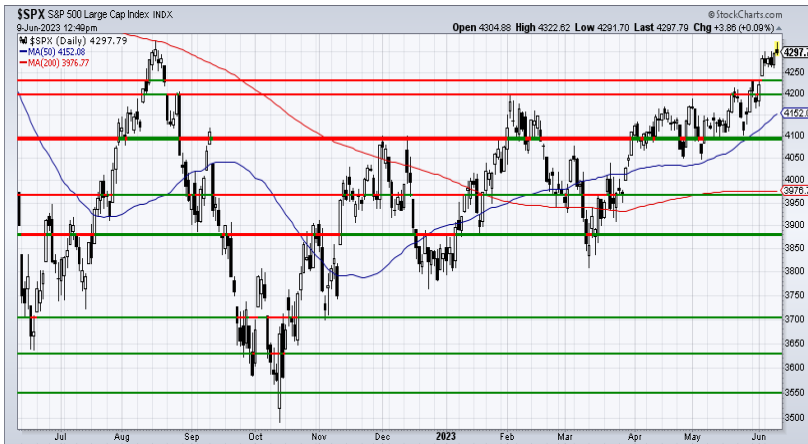


BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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The market environment seems to have changed over the last week or so. Last Wednesday the market rallied and has continued up since then. Last Friday was a particularly strong day. While the S&P has traded mostly flat this week, the gains have held. Market breadth (which we have been harping on all year) has also broadened significantly as many of the stocks that had not participated through the first five months of 2023 began to catch a bid and have traded up nicely over the last week and 1/2. The change in character has our attention. We will have to see what develops over the next week, but there are reasons for some optimism.



As we mentioned last week, small caps were at significant resistance and needed a push higher to confirm the breakout. As you can see, the Russell 2000 got that breakout. The move was strong and likely the result of some short-covering. With shorts now mostly covered, the index now needs buyers with some conviction to keep the momentum going. The gains have held this week. If a change in market environment has occurred, then small caps could be one of the biggest beneficiaries.

Our Point

The media talking point this week is that we may not enter into a recession at all and that a soft landing by the Fed is more and more likely. With the yield curve still significantly inverted (long term yields are less than short term yields), it would be highly unusual for the market to escape a recession of some sort. We continue to believe that there will be some rocky roads between now and the end of the year. That said, there is no denying the change in the market. How long it will last is an open question, but markets can remain irrational for much longer than many investors believe. We will certainly have lots of data points next week for the market to consider. The Fed starts its meeting on Tuesday as the CPI is reported that morning. PPI follows on Wednesday morning with the Fed interest rate decision due later that afternoon. While recent Fed meetings have held little intrigue beyond the language used in the press conference after the decision, next week's interest rate decision will come with a little uncertainty. Currently there is a 70% chance of a rate pause and a 30% chance of a 25-basis point hike. The Fed has gone out of its way not to surprise financial markets so absent a hot CPI and/or PPI, we believe the Fed will pause and leave open the possibility of future rate hikes. A surprise hike or even cut would likely spook the markets and cause some volatility. As always, the press conference by Chairman Powell will be parsed and listened to closely and could also move the markets. It will be another interesting week. As mentioned above, the market rotation and increasing breadth is a very favorable development for the health of the market. If the thinking continues that a recession is less and less likely, we will continue to see strength in small caps and in an ever-increasing number of stocks that have not participated in the rally thus far this year. While we continue to have our doubts and remain cautious, we did take note of the market change and added a little risk to our portfolios. We added a number of positions this week including banking, small caps, high yields and a couple of other bond funds. We will have a short leash on all of these buys but do see some potential short-term opportunity. If we continue to see strength after the Fed meets, we will add more positions and be close to fully invested. Nobody ever said investing was easy! It looks to be a gorgeous weekend in Tennessee. Absent a break to watch the BaseVols play on Saturday, I plan to spend much of it outside.