Bills Asset Management

BAM MARKET NOTE

June 30, 2023

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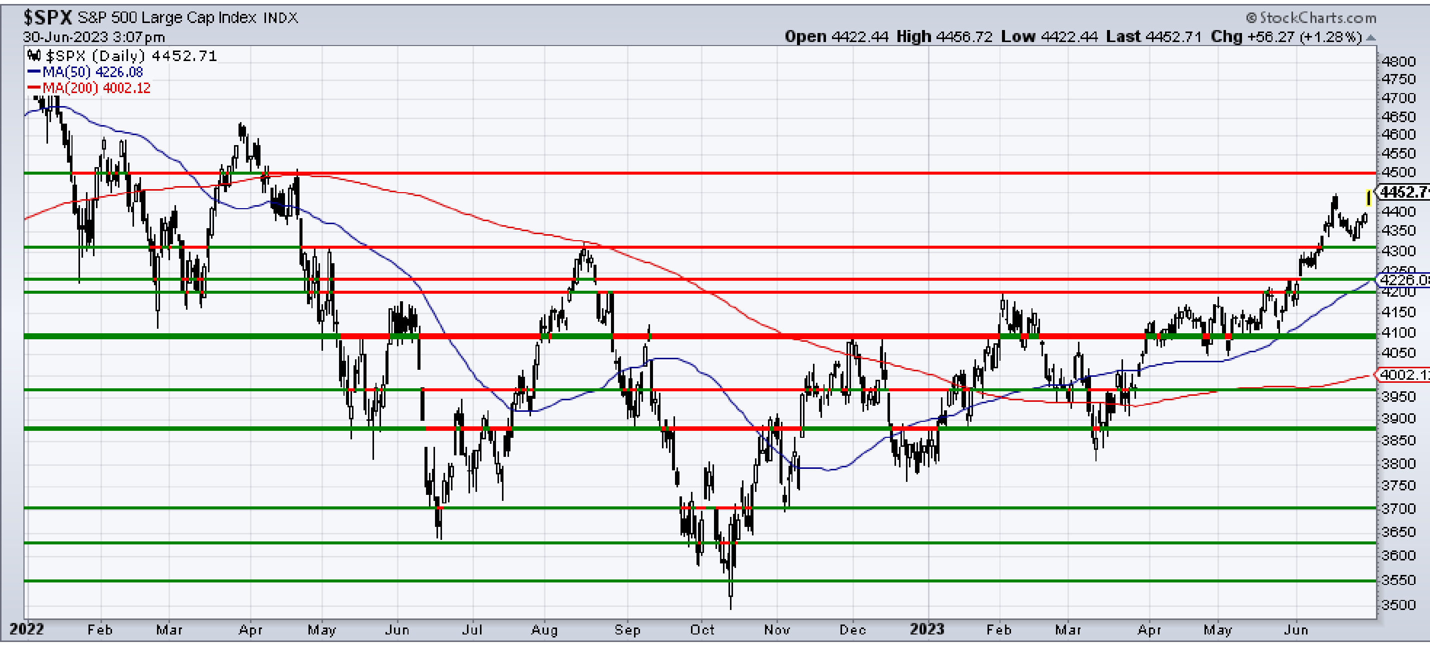

Our Point

Today marks the end of the second quarter and the markets are up nicely as we enter the last hour of trading. Despite a number of headwinds and concerns, the market just keeps moving higher. Breadth has improved over the last month but still remains relatively weak. The large majority of gains through this first half of 2023 have been driven by literally a handful of names (Nvidia, Apple, Microsoft, Meta, Google, etc…). The large majority of the S&P 500 companies have shown little to no appreciation thus far this year, but the cap weighted indices have benefited from the overweighting of the tech giants. We noted a few weeks ago that that might be changing, and breadth has improved. However, there remains work to be done for this rally to be "healthy." The headwinds are numerous. Rising interest rates, a slowing economy, the summer market doldrums, the continued unrest in Russia and Ukraine, China, etc… Through speeches and testimony, the Fed continues to reiterate the likelihood that their rate hiking cycle is not over yet. The cautionary tone by the Fed has done little to dampen investor enthusiasm. Similarly, the weakening economy has been glossed over. As we enter the oftentimes weak summer season, it would make logical sense that the market would correct or take a breather over the coming few months. We'll see. Next week will bring another jobs report and corporate earnings will follow in the coming weeks. Expectations are for weak earnings but what companies say in their earnings releases will hold more importance. The historic pace of interest rate increases should continue to be seen in earnings. There remains a large amount of spending coming out of Covid that continues to slosh around the economy which has propped this market up but with each passing day there is less and less of it. The Supreme Court's rejection of student loan forgiveness will also begin to show up in the coming months. As we said, lots of headwinds. Despite the healthy gains this year, the market has only cut into the losses from last year. The S&P would need to gain another 8% just to get back where it was at the beginning of last year. Similarly, the Nasdaq would need to gain an additional 13% to get back to those levels. We haven't participated in the gains as much as we would have liked to this year, but we also didn't suffer the losses from last year, so we don't feel the pressure to chase after the market. A correction is coming and when it does, we will evaluate it and make prudent decisions on whether or not an increased equity position is warranted. Even though the Fed has indicated another rate hike or two, they are nearing the end of their rate hiking cycle. Bonds will be a big beneficiary when the markets look past the rate hikes toward rate cuts. Our bond holdings have begun to bear fruit and should only strengthen as the Fed gets closer to winding down their rate hikes. We made no changes to our portfolios and continue to assess our holdings daily. Next week will be an abbreviated one with the markets closing early on Monday and closed on Tuesday. Despite the rancor and division in our country, I couldn't be prouder to be an American and I look forward to celebrating our freedoms and independence on Tuesday. Enjoy your hot dogs, apple pie, fireworks and adult beverages. Stay safe and have a wonderful weekend.