BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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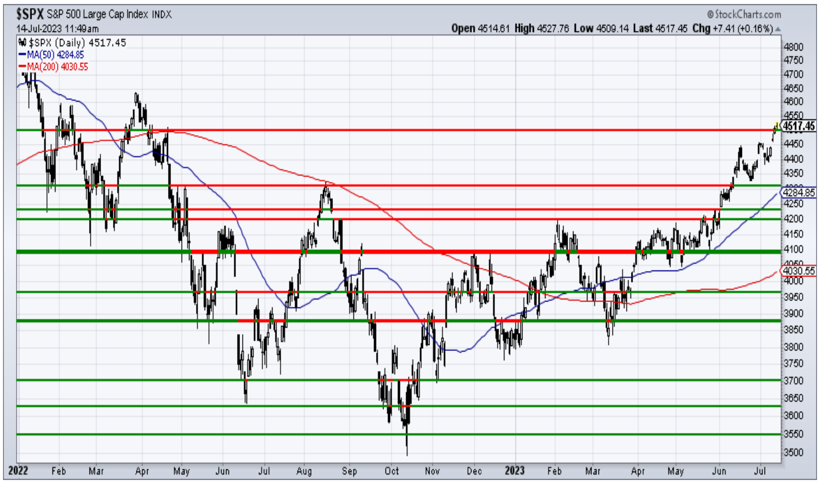
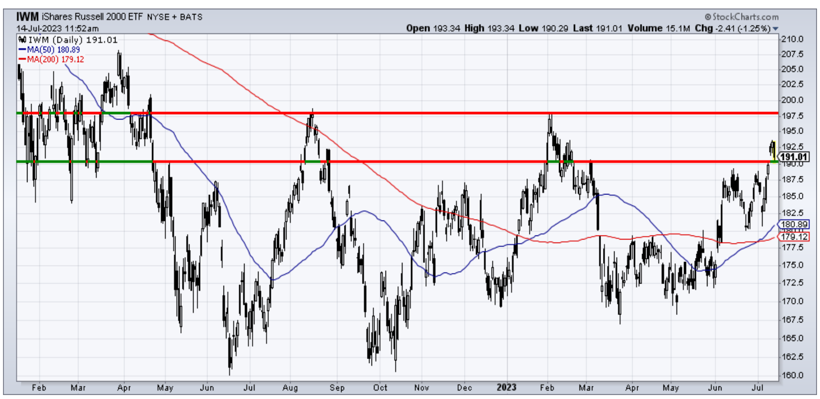
JULY 14, 2023



The S&P continued its uptrend this week on the back of better-than-expected inflation data. The index has reached resistance at the 4500 area and is now trying to sustain its minor break-out. Earnings season will determine if there is a continuation of the advance or if we will see some level of correction. With the index stretched to the upside we are betting on a correction of some sort over the next couple of weeks. Currently, the weight of the evidence indicate that weakness should be bought. Patience is difficult but we believe it will be rewarded.



Small caps languished for much of the early part of the year and were cause for some concern on the staying power of the rally in the major indices. That began to change last month as small caps surged. Accordingly, we added small caps to our portfolios a few weeks ago. If the Fed engineers a soft landing (we remain skeptical, but the current signs say otherwise), then small caps are likely to be a big beneficiary and could see outsized returns in the second half of the year.

Our Point

CPI and PPI reports were issued on Wednesday and Thursday of this week. Both reports were encouraging as inflation continues to ease. While inflation in many areas of the economy remains sticky, other areas have seen large declines. The favorable reports have led the market to believe that the Fed will only increase rates one more time (July meeting) and will hold off on further increases. The new thinking is in sharp contrast to the Fed minutes released last week which indicated that several Fed members favored raising rates at the next 2 Fed meetings. The falling inflation data has been a boon to bond positions as the market looks past the rate hikes to the next cycle of rate decreases. High yield, emerging market debt, municipal bonds, etc. have all enjoyed a very good week. Many of these groups will continue to provide excellent, low volatility risk adjusted returns as long as lower rates remain in view. With many market pundits now prognosticating that a recession is not coming, equities enjoyed another strong week. Those pundits are arguing that this time is different. The inverted yield curve would argue otherwise and has been a strong predictor of recessions in the past. Perhaps this time is different, but few win arguments with history! Earnings season kicked off this morning with several of the big banks reporting earnings. JP Morgan, Wells Fargo, and Citigroup all reported before the market open this morning. In pre-market trading all were up significantly. However, all 3 are well off their premarket highs as investors parse the earnings reports. We'll get many more reports next week as earnings season goes into full gear. We made no changes to our portfolios this week but will likely add a few bond positions to round out our portfolios. Upon the anticipated weakness, we are likely to add a little more risk to our more aggressive portfolios. I will be traveling some next week so absent major market developments, there will not be a note next Friday and we will pick back up on Friday the 28th. Like inflation, it promises to be a sticky weekend. Enjoy the heat and humidity or stay indoors.