Bills Asset Management

BAM MARKET NOTE

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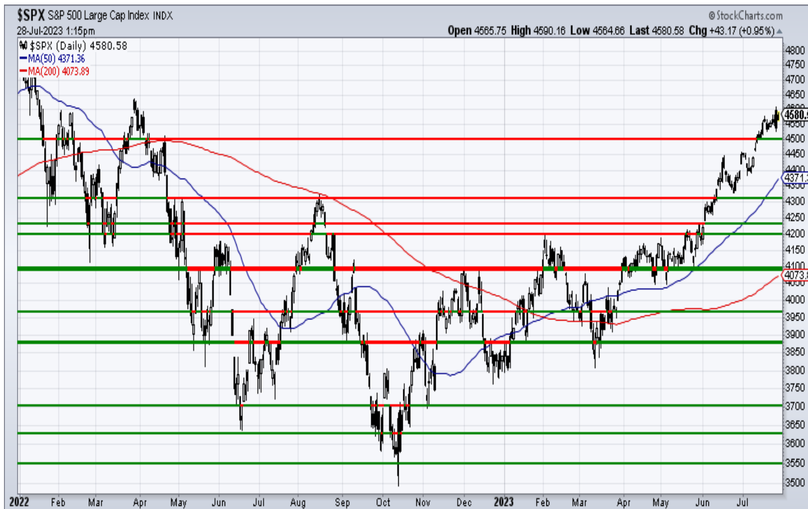

Since we last spoke, the S&P is up a little over 1.5% with the majority of that coming in today's action. The markets have been mostly staid but certainly with an upward bias. Importantly, the S&P has held above the support we mentioned two weeks ago and makes that important support as we enter into the meat of earnings season. The strength and resiliency of this market continues to impress. There are many worries, but you cannot argue with price and price continues to move higher. As the indices continue to stretch higher and higher above their moving averages, the risk of a significant and sharp correction only gets higher. However, any correction that holds above support should be considered as a buying opportunity. We continue to expect a 5-10% correction in the near future.

Small caps, which struggled for the early part of the year, have shown some relative strength over the last couple of months. Two of the things that worried us early in the year was the lack of breadth and the lack of participation by the small caps. That has changed a bit over the course of the last couple of months. Small caps currently sit right below an important level of resistance and will need to have another burst to clear that level. We suspect the short-term outlook of the market will rely on whether or not resistance is penetrated here.

Our Point

To the surprise of virtually nobody, the Fed raised rates another ¼% earlier this week. The statement and Chairman Powell's press conference provided very little in the way of new information and the jury remains out on whether the Fed will pause again in September or have another rate increase. Regardless, we are near the end of the rate hiking cycle and the market has begun looking to when the Fed will begin cutting rates. That looks more and more likely that it will be in mid 2024 at the earliest. While inflation data continues to trickle down, we remain a fair amount away from the Fed target inflation of 2%. This morning's PCE report confirmed the recent favorable CPI and PPI reports. Inflation is falling but may not be falling fast enough for the Fed. The risk remains that the Fed pauses too soon and inflation roars back and that is keeping the Fed open to continued rate hikes. The stock indices have persisted in churning higher regardless of the news and remain well above historic valuations and their moving averages. We will have a significant correction at some point – likely sooner rather than later. As long as the correction holds above important support levels, the decline should be viewed as an opportunity to add more risk to your portfolio. Many, if not most, investors missed the gains early in 2023. Those investors are now trying to play catch up to recapture their losses from 2022. Interestingly, despite the gains of 2023, all of the major indices remain well below early 2022 levels. The Dow, Nasdaq, S&P and Russell 2000 remain down -3%, -10%, -5% and -13%, respectively, from the beginning of last year. Said another way, buy and hold investors are down over the last 19 months despite the impressive returns this year. That is but one reason why we subscribe to an active management approach. Capturing gains is important, but avoiding losses is just as important if not more so. Those that missed the early 2023 gains are now jumping back in with both feet and are providing impetus for the market rise. It will likely not end well for those that are arriving late to the party. That said, we did add a little risk to our portfolios over the last couple of weeks but do have tight stops set for our new positions. We also added a few new low volatility funds and are now just rounding out our portfolio holdings. Nothing says the start of NFL training camp like feel like 105-degree temperatures! It will be a hot one in Tennessee this weekend. Stay cool and enjoy your weekend.

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