BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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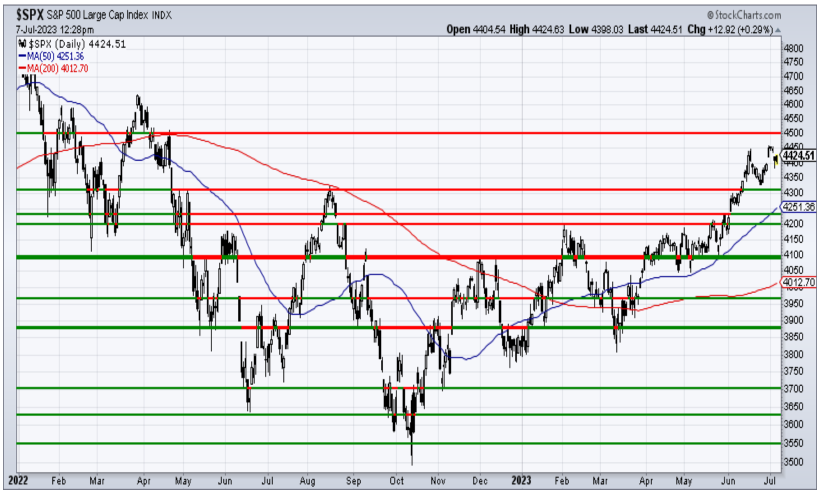

In this holiday shortened week, the market is down modestly. That said, there was a little bit of excitement yesterday as the S&P gapped down on the open. However, it clawed its way back up and by the end of the day was only down a little less than 1%. The market's resiliency is impressive! The index has been in a wide trading range since early June with resistance at the 4450-4500 area and support around 4300. Earnings season will likely be the catalyst for either a break-out or a break-down. A 5-10% correction remains a distinct possibility. Despite the market resiliency, caution remains warranted. A correction that holds support levels should be considered for adding more risk to your portfolio.

Treasury yields surged this week as the Fed minutes were released and the market came to grips with the reality that rate hikes are not over yet. The increase in yield had a negative effect on many bond types. However, with the Fed closer and closer to being done, the market will begin looking at lower rates in the future and many bond types will become increasingly good investment vehicles.

Our Point

The big market mover (especially for the bond markets) this week was the release of the Fed minutes from their June meeting. Last week, Chairman Powell stated "A strong majority of committee participants expect that it will be appropriate to raise interest rates two or more times by the end of the year." Powell's statement was backed up by the released minutes and it is increasingly likely that we will see at least 2 more 25 basis point hikes. This morning's job report cooled a little from prior months but still remains stronger than the Fed would like and virtually guarantees the expected 25 basis point hike later this month. Of course, we will see CPI and PPI reports between now and then. Absent a significant drop in inflation, a July rate hike is all but certain. The big banks will start earnings season in earnest next week. Every earnings season is a potential market mover but this one could be even more important. With rate increases taking some time to work through the economy, the Fed would like to see some cooling in corporate earnings and the market in general. It will be difficult for the Fed to achieve its stated goal of 2% inflation without a greater contraction in the economy. With CPI, PPI and the earnings that will come in next week, it could be a volatile week. We made no changes in our portfolios this week but are watching developments in the bond market. If treasury yields continue up, it will have a negative effect on our bond holdings. Absent a surprisingly strong CPI and/or PPI, we suspect that the bond markets will look past the next 2 anticipated rate hikes and focus on rate cuts in 2024. Bond groups will be the beneficiary of any anticipated lower rates. Our equity positions have bounced back today, and we will also be watching them closely. We will not hesitate to get more aggressive or defensive depending on what the market is doing. Thanks for your trust. Enjoy your hot and humid weekend wherever it finds you.

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