

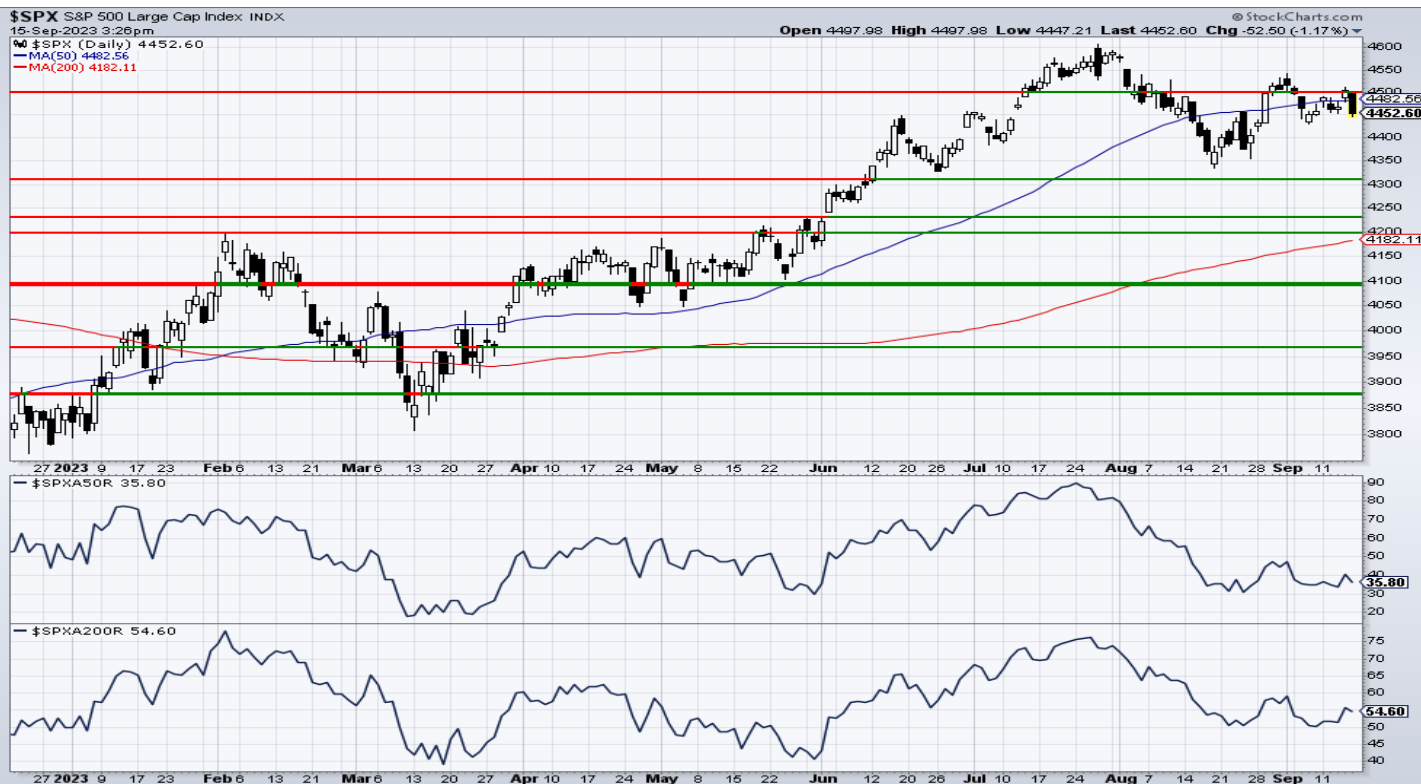
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

SEPTEMBER 15, 2023

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Our Point

The markets had a lot of economic data to parse this week but largely shrugged at all of it. CPI and PPI both came in a little hotter than expected which will put a little pressure on the Fed. The small increase in inflation is being attributed to rising energy costs. Regardless, it certainly wasn't what the Fed wanted to see as they try to navigate down to their inflation target without causing too much harm to the economy. We'll get the Fed thoughts and rate decision next week. If Chairman Powell is truly data dependent as he has been saying for months, then the recent uptick in inflation should give him some pause in pausing too soon! However, it would be quite a shock to the financial markets if Powell were to do anything but hold rates steady at this coming meeting. The Fed Funds futures currently indicate a less than 10% chance of a rate hike. That chance goes up significantly for the November meeting and we would expect at least one more 25 basis point hike if inflation remains elevated between now and then. It appears that the European Central Bank raised its rates for the last time this week and central banks do like to stay in step with each other. The difference, however, is that the European economy is much weaker than the US. For the week, the S&P traded mostly flat. Surprisingly, the markets all went up sharply yesterday on the back of the negative inflation data. Those gains have been reversed today and we are right back where we started from. The chart above shows the S&P that we always show but we have added two panels below that show the percent of S&P stocks above their 200- and 50-day moving averages. It is another way of looking at where the markets are, if they are oversold, their breadth, etc. Readings of 36 and 55% of stocks above their 50- and 200-day moving averages are not particularly awe-inspiring readings and illustrate that the market may be a little weaker than the current prices indicate. That said, we are nearing the point in these readings where we have seen some rallies in the past. The markets remain in a weak seasonal period. Many market pundits are convinced that we will get a further rally into year end. We don't disagree but it does make me a little nervous when so many are expecting the same thing to happen. We could see the year end rally a little earlier than many expect. We made no changes to our holdings this week but will take the weekend to evaluate a few changes we are considering early next week. It looks to be a glorious Tennessee weekend with great weather, the Vols on national TV in the swamp and the Titans at home hoping to even their record. It should be a great weekend – we hope you enjoy yours wherever you are.