BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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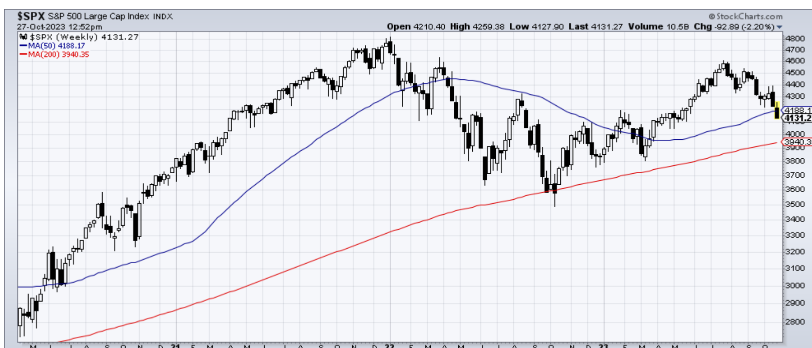
Last week we noted that a break below the 200-day moving average and the next level of support at 4200 would put the end of year rally into serious doubt. We got those breaks this week as the S&P shed another 2%. The breaks of support are significant. The longer the index stays below these levels the more significance it takes. If the bulls want to assert themselves, they need to do it soon. With the market action over the last couple of weeks, it is likely that an oversold rally of some sort will happen over the coming few days. The strength or lack thereof will tell us much about the bulls resolve. 4100 is another key level of support that must be held by the bulls to avoid another painful week. Be cautious.



Sometimes a weekly chart helps to filter out some of the day-to-day volatility. The S&P weekly chart reflects the weakness of the last couple of weeks and also puts it into perspective. Importantly, the weekly chart is right at support of it's 50-day moving average which lends credence to the importance of the next few days in determining where this market heads to end the year. The S&P has given back much of its gains for the year and remains down over 13% from 2022 levels.

Our Point

Despite positive earnings from 4 of the magnificent 7 stocks, the markets continued to head south. While all 4 companies reported strong current earnings, Google was punished (falling 10%) for hedging some in its forecast for forward earnings. Microsoft, Amazon, and Meta rounded out the big earnings and, while treated more kindly, did not endear confidence in the tech sector. Apple reports next Thursday so let's see if they can rally the tech troops. To this point, approximately 1/3rd of the companies have reported their earnings with somewhere between 70 and 80% meeting or exceeding expectations. While that sounds great on the surface, it should be noted that analysts (as they most always do) have consistently lowered the bar on expected earnings over the course of this year. Economic data this week was much of what was expected with GDP coming in a little stronger than expected and the PCE continuing to show the stickiness of inflation. The Fed meets next week and neither of this week's economic reports will have much bearing on the decision. The market is expecting, and the Fed has all but announced, that they will hold rates steady. Any deviation from that expectation would lead to a big market move as Wall Street doesn't like surprises. As we have discussed before, the shenanigans in Washington don't often have much lasting effect on the markets. The House finally electing a speaker illustrates that point as the market could have cared less and provided nothing in the way of a relief rally. However, the uncertainty related to the war in the Middle East is giving traders an excuse to sell. While the current conflict has had little effect on the price of oil, a widening of the conflict would likely lead to a spike in oil which would lead to a furthering weakness of the world economy and greater damage here in the US. With an Israeli ground invasion of Gaza apparently coming in the next few days, we will soon have an idea of the response by the rest of the Islamic world. It's a lot for the markets to digest. While the prospects of an end of year rally have not completely gone by the wayside, the chances of such a rally have definitely decreased with the technical damage done to the markets. We haven't made any changes to our holdings as of this writing but, depending on how the day goes today, may begin to lighten up on some of our equity holdings. Our conservative accounts remain very conservatively positioned with little to no equity exposure. Our moderate and aggressive accounts have some equity exposure but remain relatively defensive despite their modest equity holdings. Thanks for reading and enjoy your weekend!

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