

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

OCTOBER 13, 2023

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Our Point

One of the most bullish things a market can do is to go up in the face of negative news. The market did that earlier this week as it was hit with the war in Israel and rising inflation data. Despite those negatives, the market continued to move higher. It has not been a large move and it was interrupted by some selling yesterday and again today but the fact that the market has held up as well as it has is a tangible positive for the near term. The attack by Hamas on Israel this weekend was akin to our 9/11. Surely, many of you have heard that the death toll in Israel due to the attacks are, adjusting for population size, similar to the US losing 30,000 lives in a terrorist attack. Predictably, Israel is rattled and angry – much like the US was some 23 years ago. The economic effect of the attack and Israel's response is not yet determinable, but tensions are high, and things could spin out of control quickly. Should other countries join the fight, the current conflict could easily have serious world-wide economic effects. Expectedly, oil jumped sharply over the weekend but has stabilized some. We will have to see what the fall-out will be over the coming weeks, but it is definitely something that should be monitored and could have a great effect on the markets. In the US, inflation data came in higher than expected with both the PPI and CPI reports showing inflation creeping back up again. The move up was not dramatic but the fact that inflation remains difficult to contain will put increasing pressure on the Fed to raise rates and/or wait longer to cut rates. Several Fed officials spoke this week and were surprisingly dovish in their comments. While Chairman Powell was not among the speakers, it brings into question what the Fed will do at its next policy meeting in early November. The dovish comments certainly tempered the market reaction to the disappointing CPI and PPI reports. It will be interesting to see where the Fed lands in a couple of weeks. Earnings season has started with the usual parade of big bank earnings. This morning JP Morgan and Citi both reported better than expected earnings. Both are up sharply today. We'll get many more earnings next week and that will be a market driver over the next several weeks. We added some additional equity exposure last week and continued to layer in equities this week. We remain cautious and have set tight sell stops but it is hard to argue with the recent strength. Earnings season could be the catalyst to kick off a 4th quarter rally. The Vols are back in action this week with a big game against the Aggies. On Sunday, we'll see which Titans team shows up. It has already been an up and down football season – much like the markets! It should be a glorious fall weekend in Tennessee – get out and enjoy the moderate weather before winter hits! Thank you for your trust – we don't take it for granted.