BILLS ASSET MANAGEMENT

BAM MARKET NOTE

NOVEMBER 17, 2023

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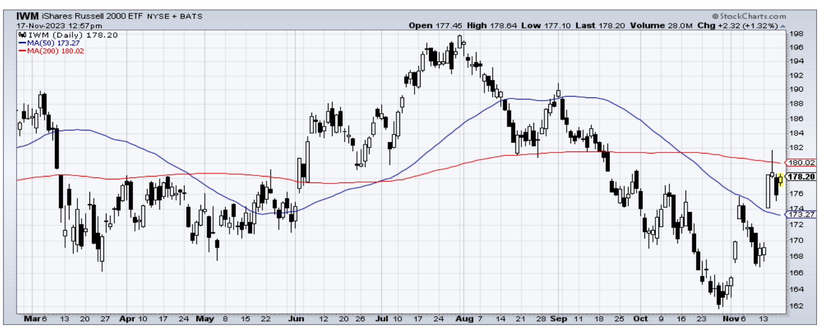

We mentioned last week that a sideways move after a large run up was bullish market behavior. The markets responded and after last week's consolidation started another up leg this week. The S&P again finds itself at another resistance/support level at 4500 and has moved sideways the last 3 days. After such a big run up and with the upcoming holiday shortened trading week, we would not be surprised to see the market continue to move sideways and/or down a little next week. Holiday trading leads to lower trading volumes which can accentuate moves in either direction. Should we get a little sell off next week, it should be used as an opportunity to put any unused capital to work. We don't know how long this rally will last but no one can deny its strength.

Small cap stocks suffered a brutal summer; falling some 18% from August to October. However, November has been a big month for small caps with the Russell 2000 up 8% from its October bottom. Small caps often do well during this time of year so we definitely have our eyes on them and may be adding some exposure on weakness.

Our Point

While last week was lacking economic reports, this week was full of them with CPI, PPI, and retail sales all being reported. Both CPI and PPI showed a marked reduction in the pace of inflation. The declining increase in inflation fueled the market to the upside as all indices moved sharply higher. The slowing inflation also would seem to indicate (absent a surprising uptick in the coming months) that the Fed is done raising rates in this cycle. The question has already turned to when the Fed will be cutting rates. In the absence of a recession and/or a significant market decline, we believe that rates will hold steady for the foreseeable future. There is no reason for the Fed to decrease rates as long as the economy is stable and the markets are holding up. Mind you, next year is an election year and while I would never intimate that politics plays any part in the Fed's decision-making, it will and it does! Whatever party that is in control of the White House always does their level best to avoid any bad news – especially in an election year. Accordingly, the Fed will be on its best behavior and may well surprise us and many others by being a little more accommodative than usual. We'll have much more time to discuss 2024 in the coming weeks but 2023 is here now. The expected end of year rally has arrived. We'll have to see how much more room it has to go but a run at 4600 on the S&P (its highs for the year) would be a logical assumption. We think we'll get there before the end of the year, but it won't be a straight line. Among the big winners of a pause and potential decline in interest rates, are the bond markets. Falling interest rates lead to higher bond prices and bonds soared with the expectation that the Fed is done with raising rates in the near-term. We sold a couple of lagging positions this week to generate a little cash and purchased a few new bond funds. Municipal bonds have caught fire and we purchased a position in them this week and will likely add to that position in the coming days/weeks. We will also likely add to our equity positions and add a small cap position on weakness. While we are bullish in the short-term, we also remain vigilant that things often and can change quickly. Accordingly, we have not thrown caution to the wind. Managing risk will always remain a hallmark of our firm. Since the Vols and Titans have both suffered mightily due to my weekly shout-outs to them, I will refrain from mentioning them this note. In fact, I don't even know if they are playing this weekend – come to think of it, they didn't play much last weekend. We won't be issuing a note next Friday as we will be gathered with family for Thanksgiving. We hope you will too and that you enjoy time spent with those you love. Happy Thanksgiving.