BILLS ASSET MANAGEMENT

BAM MARKET NOTE

DECEMBER 1, 2023

BO BILLS (615) 371-5928

CARTER BILLS (615) 585-6867

The S&P has largely gone flat this week though we do have some upside action starting today. The high for 2023 (4600) is just above current levels. 4600 should be significant resistance and would be a logical place for this rally to pause. A small pullback as we get close to this resistance would not be unexpected. A 1-3% decline would provide an excellent entry point for any cash you have left on the sidelines. Note that such decline would take the index back to the 4400-4500 level. Coincidentally there is an unfilled gap in that area that makes such a revisit more likely. We continue to believe that pullbacks should be bought but upside to current levels may be limited in the large caps.

This chart shows the relative performance of value to growth. For much of this year, growth stocks have outperformed their value counterparts.. That may be changing as value has outperformed growth over the last 7 weeks. It isn't enough to indicate a sea change at this point but bears watching. Value outperforming growth is not usually what is seen at the onset of a new bull market.

Our Point

This week we got the first revision to 3rd quarter GDP numbers. The change was a healthy upward revision that has the US economy growing at a pace of 5.2%. It is a remarkable number as many Americans aren't feeling the effects of such a healthy economy. A look below the surface may show a different number. Gross Domestic Income (GDI) is another measure of economic output. Usually, GDP and GDI approximate each other. However, for the third quarter, GDI rose at an annualized 1.5% rate. Over the last year, GDI has fallen .16% versus a gain in GDP of 3%. Something is amiss. Over the coming months, these numbers should converge. The question is whether GDP falls or GDI rises. The answer to that question will likely show whether or not we are heading towards a recession or not. Inflation talk has been replaced by Fed rate cuts. While the inflation we have endured over the last two years remains, the pace of increase has moderated. The Fed still says it wants to see a 2% inflation rate (we are currently just north of 3.5%). There are mixed messages coming from the Fed as a number of Fed officials have sounded relatively dovish over the last week while this morning Chairman Powell raised the possibility of further hikes. The market ignored Powell's comments and, in fact, have rallied this morning on them. The market clearly believes that Chairman Powell is posturing and that the rate hikes are over. Assuming we get the soft landing many pundits are now predicting, we could be at the start of a new bull market. We have our reservations and think the coming months will be choppy. That said, we are optimistic in the near term. Many, if not most, missed much of the gains this year as they were concentrated in only a select few stocks (the magnificent 7). Accordingly, there are many that will chase this market as we near the end of the year. Because of this, any pullbacks will likely be mild, and we should continue to see buying pressure into year end. Santa looks to be right on schedule. Over the next 2-3 weeks, mutual funds will be making their annual distributions. The result can be added volatility and significant daily declines to fund prices. The distributions have no effect on the value of your mutual fund shares as owners receive dividends (paid in cash or additional shares) that approximate the declines. Be wary of large unexpected declines in your mutual fund holdings this time of year. We made no changes to our holdings this week and hold a small amount of cash that we are waiting to deploy on any pullback. Small caps remain intriguing and will likely see some allocation over the coming week or two. 24 shopping days until Christmas so get out their and do your part to spur this economy higher. Have a great weekend!