BILLS ASSET MANAGEMENT

BAM MARKET NOTE

DECEMBER 15, 2023

BO BILLS (615) 371-5928
CARTER BILLS (615) 585-6867

The rally rolls on! A deluge of new data and Fed posturing has spurred the equity markets to all-time highs. CPI readings came in Tuesday and indicated prices largely holding steady. Markets rallied on the anticipation that the Fed would decide to keep rates unchanged. On Wednesday, Fed Chair Jerome Powell delivered exactly what the bulls wanted by keeping rates where they are but also added some fuel to the fire by hinting at multiple rate cuts being a real possibility next year.

We have talked much of the strength of the few mega-cap stocks that have carried the market's returns for the year. However, this chart shows the SP500 Equal Weight Index has outperformed the general SP500 index by about 3% since the lows put in during late October. While this may not seem like much, it suggests that there could be a change in favor for the smaller companies that make up the SP500. Value stocks could continue to outperform going into the new year, it is something worth watching. Additional breadth and wider market participation are signs of a healthy stock market and are certainly welcome.

Our Point

The Fed kept rates unchanged as Chair Jerome Powell and co decided that inflation readings are coming in cool enough that we must now "wait and see" as to not "overshoot" and implement too much restrictive policy too soon. He stressed the importance of the lag between implementing policy and how long that actually takes to move through the economy and be reflected in the data. The Fed seems to be satisfied with how things are shaking out, with one member even hinting at 6 (!) rate cuts being in play for 2024. I found it notable that Chair Powell's personal demeanor seemed to be far more confident and comfortable when compared to previous Fed decision day announcements. Perhaps I am reading into things too deeply, but there seemed to be a definitive shift in how the Fed sees where we stand in the fight against inflation. The markets also felt the shift in tone and the SP500 and Nasdaq 100 are on track to return 2.2% and 3.3% respectively for the week. Even more impressive, the Russell 2000, the index representing smaller domestic companies, is up 5.5% for the week at the time of me writing this note. The importance of small-caps finally starting to play catch up cannot be understated. We mentioned in a previous note that the divergence between mega-caps and small-caps would have to narrow eventually if the market was going to continue its upward trend. We are starting to see that play out now. The bulls have had a fantastic week on Wall Street and anyone left on the sidelines might consider adding to their equity positions on the next pull-back. The indices are getting fairly stretched to the upside and we could see some reversion in the next week or two, but we will continue to make decisions based on what the market is actually doing and not on what we think it will do. We added a small position in a value holdings fund which brings all of our clients to near fully invested. The stage is set for a Santa Clause rally. Jerome Powell did his part; can Santa deliver as well? --- How about those Titans on Monday night?! They shocked the Dolphins in Miami during primetime! It took a late and dramatic 4th quarter comeback- much like the one we are experiencing in the stock market, to pull out the win and snatch a W from the jaws of defeat. The boys in blue may have found themselves a quarterback in Will Levis. Thank you for your time in reading, and we appreciate your trust in managing your assets. Bo will be back writing the note next Friday. Enjoy your weekend.

The content of the BAM Market Note is provided for general informational purposes only and should not be construed as advice to purchase or to retain any interest in any of the investments mentioned. Any references to returns are not indicative of future performance and are subject to adjustment or revision.