BILLS ASSET MANAGEMENT

BAM MARKET NOTE

DECEMBER 8, 2023

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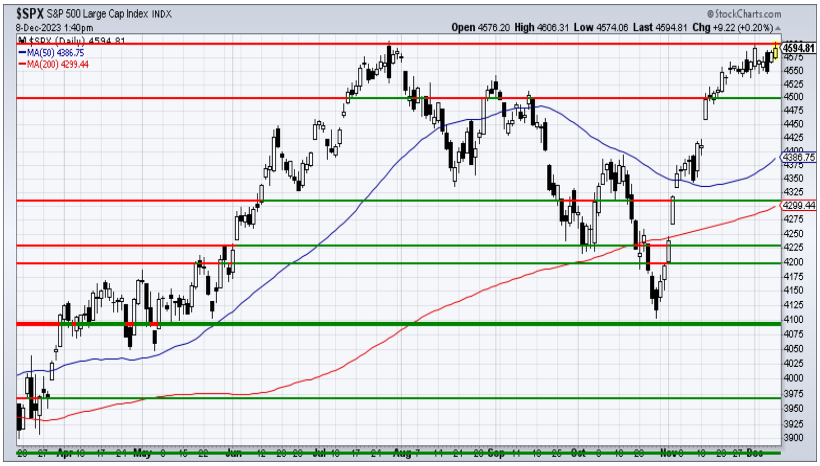
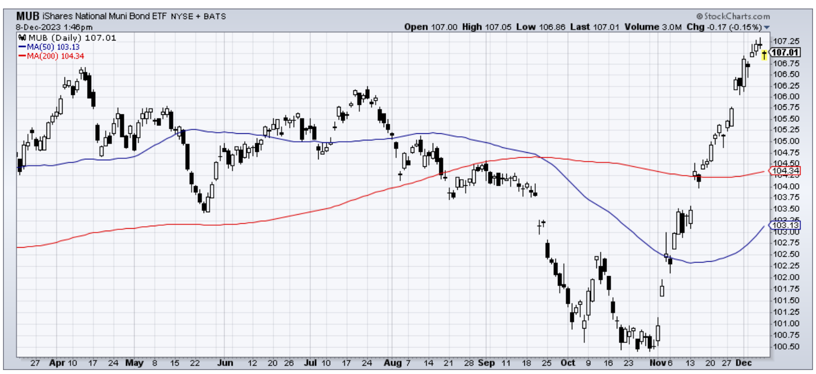


The S&P has mostly traded sideways this week. It is bullish activity as the best way for a market to consolidate prior gains is a period of sideways digestion where buyers and sellers are balanced. The important index remains right at important resistance at 4600. We are testing those levels today. A break above 4600 sets the stage for the highs of last year. We won't likely get there this year but there could be a few more gains to squeeze out of this market in 2023. We remain optimistic in the short-term but a little more pensive in the intermediate and long-term.



Unfortunately, there are many in the financial industry that view bonds as staid and old-fashioned with low returns. If you look at the chart, it looks anything but boring. Bonds have been on fire of late. I show municipal bonds, but emerging market bonds, corporate bonds, preferred securities, etc. have all exploded to the upside. With the increased potential of lower rates in the coming months, bonds should continue to hold a significant spot in investor allocations.

Our Point

Good news this morning on the jobs front looked to dampen the enthusiasm on Wall Street. However, by the open, futures had reversed, and green screens were everywhere. It hasn't been an explosive day by any means but there are gains despite a jobs number that led many to believe that the Fed might revisit their current pause policy. The Fed meets next week, and it is all but a sure thing that interest rates are held steady. As of late recently, what Chairman Powell says will be much more important than what he does. The market continues to be under the assumption that the Fed rate hiking cycle is done and that rate cuts are around the corner. While we agree that the rate hike cycle is likely over, we don't believe the Fed will be in any rush to cut rates. If they are in a rush, then it will mean that the economy is in trouble and that would not be good for the markets. Wall Street should be careful what it wishes for. Next week we will also get a new reading on inflation with the release of November CPI and PPI. Both numbers have the potential to move the market. A falling inflation number would likely lead to a rally in the markets while an uptick in inflation could lead to a little profit taking. The markets have had a good run over the last several weeks so a continued pause or decline would not be out of character. That said, we do continue to look optimistically over the coming weeks for both bonds and equities. We made a few changes in our portfolios this week. We upgraded a couple of positions and added a position in small caps. We have been talking about small caps for the last few weeks and we got a little pullback to provide an entry point. Bonds continue to be a significant part of our portfolios as their risk adjusted returns are hard to beat in the current environment. We are nearly fully invested but will continue to upgrade positions and fill in where necessary and when opportunities present themselves. 35 years ago, Kelly and I traveled to New Orleans for our 6-month delayed honeymoon. Next week, we return to New Orleans to celebrate. Accordingly, I will be traveling next week. In my stead, Carter will be posting our market note next week. Normally, this last part of the note is reserved for Titans and Vols talk but with the Vols done until bowl season and the Titans …, I will just wish all a wonderful weekend wherever it finds you. Enjoy a relaxing weekend.