**BILLS ASSET MANAGEMENT**


# BAM MARKET NOTE

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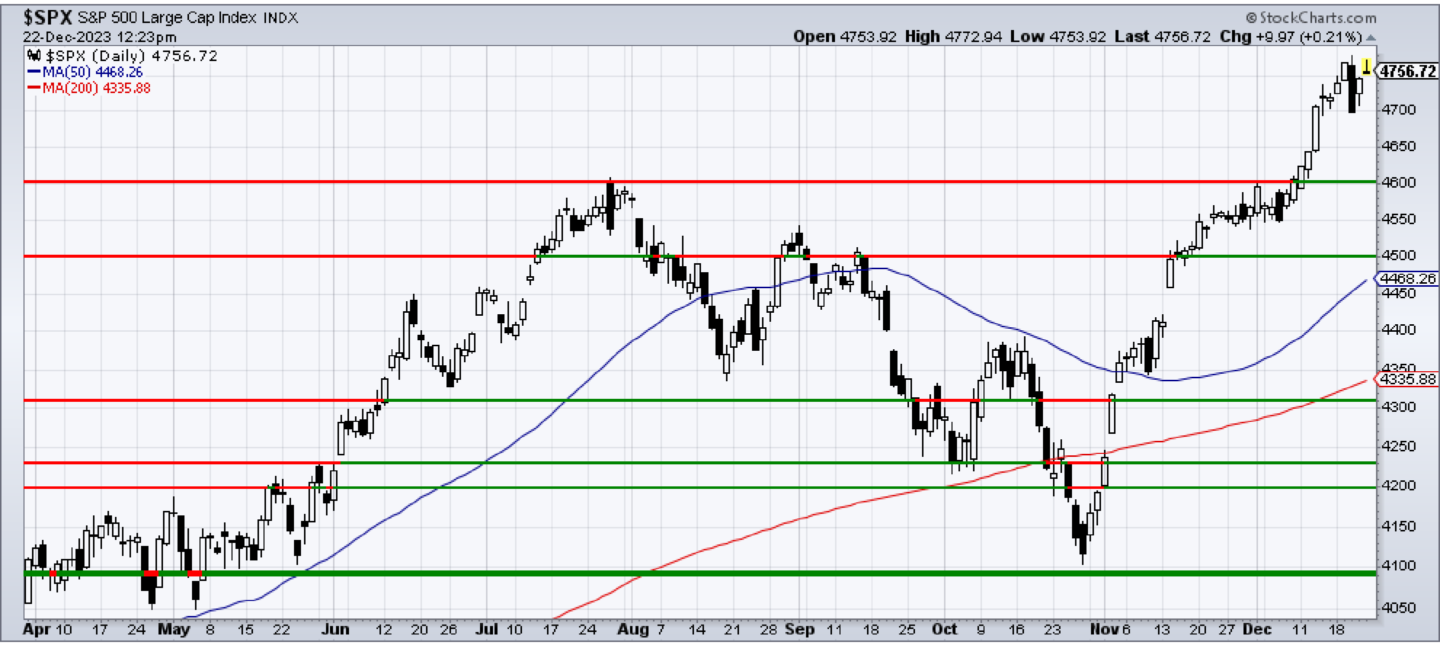


## Our Point

As Carter mentioned in last week's note, comments by Fed Chairman Powell after the rate decision last week led to another leg up in the markets. The change in posture by the Fed should not be understated. The Fed went from "higher for longer" to the possibility of multiple rate cuts next year. There was some attempt by various Fed officials this week to try and temper rate cut expectations. However, the Fed dot plot indicates the overwhelming majority of Fed officials expecting anywhere from 2-4 rate cuts in 2024. Fed fund futures indicate that 6 quarter point cuts are expected next year – in line with the most dovish of Fed officials. It seems the market took the Fed shift and ran with it! As mentioned here many times over the last several weeks, the Fed is not likely to lower rates unless the economy weakens significantly. Accordingly, significant rate cuts in 2024 might not be the good news that many on Wall Street are now touting as reasons to throw caution to the wind. However, it is an election year and, though the Fed is supposed to be politically neutral, there is reason to believe that politics could play a role in their decision-making. Talk of an elusive soft landing is increasing but there remains a real possibility that the Fed gets it wrong, and we end up with a recession next year. The possibilities are endless and definitely something to watch carefully as we get ready to begin a new year. Regardless of what the Fed may or may not do in the future or even why they might do it, investors should be playing with the hands that they are dealt and not with what they think they will draw. Right now, it is a pretty good hand! For much of this year, gains were concentrated in a handful of names (the Magnificent 7). Over the last several weeks, however, gains have spread to a whole host of areas. Small caps have been ripping, the S&P 493 is playing catch up and bonds have taken flight. There really haven't been too many areas of the market that haven't participated in the rally. With the prospects for lower rates, bonds should continue to be a great source of excellent risk adjusted returns. The market remains frothy at these levels so some profit taking is likely in the next week or two. It seems likely that we will continue to drift up over the next week but that could change in early January. How the market handles the first real test of this rally will be very instructive. With S&P highs just a few points away (4800 or so), we will likely hit those levels before the end of the year. It will be a logical place for the market to pause/correct. We continue to fine tune our portfolios, with slight changes to upgrade positions and/or move into emerging areas of strength. With Christmas coming on Monday, it will be a short trading week and we will refrain from writing a note next Friday. From our family to yours, we wish all of our readers the Merriest of Christmases, the Happiest of Holidays and a very healthy and prosperous 2024! Enjoy your weekend and your holiday celebrations!