Bills Asset Management

BAM MARKET NOTE

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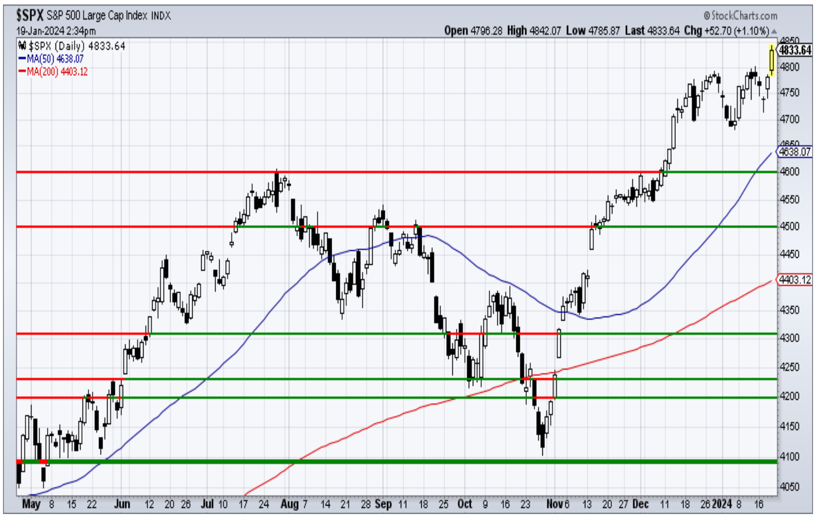
January 19, 2024



After some early weakness this week, the market has the bulls back in control. The 2022 highs that we thought would be taken out in late 2023 were taken out earlier today. The area around 4800 was the previous high and as of this writing we are trading at 4834. The breakout is significant as the markets have been testing this area for almost a month. Holding this level will be equally important. We still have many of the big companies left to report earnings and a Fed meeting in less than two weeks, so we will soon have a good indication of whether or not the breakout is sustainable. Today's move is very positive and should not be understated.

After falling precipitously from late October to late December, the 10-year treasury yields have begun to climb again. The fall last year was on hopes/expectations that the Fed would start cutting rates soon. However, it appears the market is rethinking their expectations. The increase in yields has had a negative effect on bonds and small cap stocks. We should get more clarity on the future of rate cuts when the Fed convenes at the end of the month.

Our Point

The last two weeks of earnings have been dominated by both the big and regional banks. The results have been mixed at best and nothing coming out of earnings has led to any real sustainable moves in the markets. The big story so far in 2024 has been the renewed dominance of the large cap tech companies. For 2023, the magnificent 7 dominated returns for the vast majority of the year. That only began to shift in October. We may be seeing the early signs of that dominance resuming again in early 2024 as the large cap names are continuing to lift the market indices. With treasury yields climbing again, small and mid cap companies have stumbled out of the gate this year. It should be noted that the bond markets are often smarter than their equity counterparts so rate cuts sooner rather than later may be a false expectation. At least two Fed officials have come out this week tempering rate cut expectations. Fed members Bostic and Daly were both a little more hawkish than Wall Street was expecting. Again, we will get much more clarity when the full Fed reserve board meets on January 30th and 31st. Despite the significant rise in treasury yields, Fed Funds futures still indicate a near 50% chance of a rate cut as early as March with the probability of rate cuts by May increasing to over 80%. It will be very interesting to see what the Fed has to say as it is largely a rate driven market currently. That is not to say that earnings don't matter, and we will get much more indications of that over the next several weeks. Next week will see earnings from the likes of Netflix, Tesla, Intel, Proctor and Gamble and Johnson and Johnson. We made a small change in our holdings this week as we used some cash to increase our position in large caps. We are currently 95-100% invested. We are watching our positions in small caps closely and may adjust some of our bond holdings if rates continue to rise. It has been a brutal week in Tennessee as we saw unusual snow fall and temperatures. At our house we got close to 9 inches of snow and temps dipped below 0. Snow and cold remain today but warmer weather is on the horizon with near 60 next week. It can't come fast enough! Bundle up, stay warm and enjoy your weekend – spring is coming.