Bills Asset Management

BAM MARKET NOTE

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Last week the markets broke out from its 2022 highs – a very bullish sign. The markets could have been expected to pause and pullback but, instead, have continued to surge upward. For the week, the S&P looks to add a little over 1% to its YTD totals. It has been an impressive display. The market has again become a little frothy and overbought so a pullback would not be unexpected. Wall Street will have lots of information next week to chew on with a large slate of earnings and the Fed meeting. Any disappointing news on either front will likely lead to a decline of some import. We continue to believe that weakness should be bought, and uninvested cash should be put to work.

The Value Line Index is considered a good measure of the total market and represents approximately 1700 stocks from various market indices. While the S&P has surged higher, the Value Line Index is down for the year. The bifurcation revisits a theme for much of last year – a few stocks with outsized capitalizations are pulling the markets up. A market with low breadth of participation (as we have again to start 2024) is cause for some concern.

Our Point

During earnings season almost everyone gets a trophy. It is an expectation game and many companies set low expectations so that they can exceed them with the actual releases. Stock analysts do the same as they ultimately want to sell you stocks. You can see this every quarter as the vast majority of company earnings either meet or exceed estimates. Big misses are rare but do happen. Two of them happened over the last week as both Tesla and Intel were punished after reporting poor earnings and forecasts. Tesla fell 12% and Intel is down almost 11% this morning on their report. Despite the poor earnings, the market has held its own. Next week is a monster week for earnings and Fed news. We'll get earnings from Apple, Amazon, Meta, Microsoft and Google (5 of the Magnificent 7). The Fed will also be meeting on Tuesday and Wednesday with their decision due Wednesday afternoon. Fed Funds futures are still pricing in a moderate chance of a rate cut but we think that unlikely. The big question will be if the Fed reiterates the dovish stance of December's meeting. With markets overbought, should the Fed pull back on rate cuts, the market is very likely to sell off significantly. Similarly, any significant miss or lowered expectations from the big tech stocks will lead to a pullback. Speaking of the Magnificent 7, we shared last week that they were leading the way again this year much like in early 2023. While the S&P is up a little over 2.5% YTD, an equal basket of the Mag 7 is up over 5%. However, if you strip out Tesla (down 27% YTD), the remaining 6 companies are up 20% YTD! The generals are certainly leading this market and will have to continue next week for the markets to avoid faltering. We made no changes in our portfolios this week as small caps may have bottomed and had a good week. Bonds also stabilized. Both continue to bear watching as a change in Fed sentiment will have an outsized effect on these positions. Last weekend's snow and cold were replaced with rain and milder temps this week and it was a welcome change. Let's hope for some sunshine next week. Enjoy your weekend.