BILLS ASSET MANAGEMENT

BAM MARKET NOTE

FEBRUARY 23, 2024

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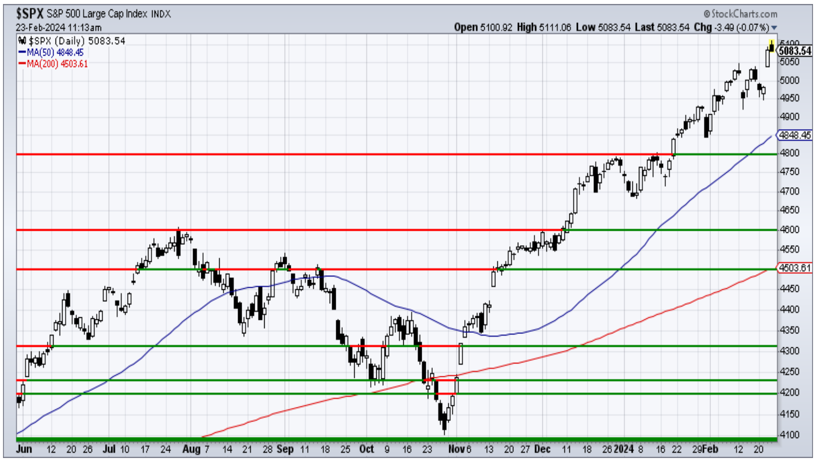

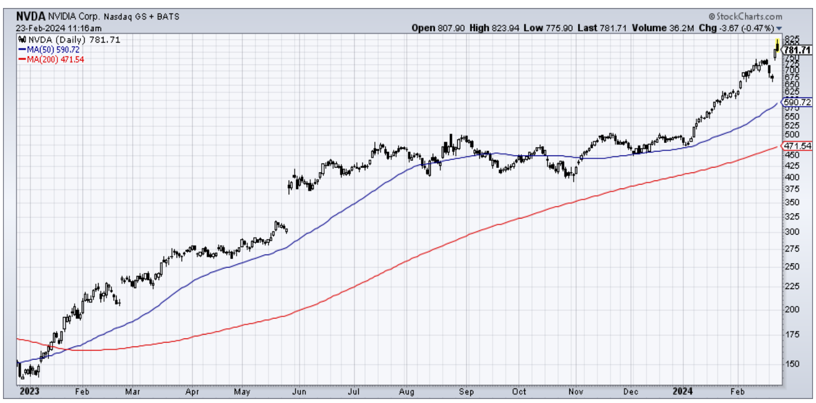

Over the last couple of weeks, it looked like the S&P was entering into a topping pattern with increased volatility. However, yesterday's action where the S&P rose over 2%, put that thesis into question. The large gains yesterday were all due to the excitement created by the earnings of Nvidia. The index continues to be overbought and overstretched so a correction of some significance is becoming more and more likely. However, as stated here often, the market can be become overbought to a greater degree than most people expect. Other than being stretched, there is nothing not to like in the S&P chart. That said, at these levels, investors should be cautious and wait for the expected correction before putting more money to work.

As noted above, earnings by Nvidia after the market close on Wednesday led to an avalanche of buying yesterday. Nvidia itself was up an astounding 16% for the day. Yesterday's rally has the stock up nearly 60% in the first 53 days of 2024. This is in addition to the 240% it was up in 2023!! The gain yesterday increased the stock's market cap by $264 billion. To put that into perspective, the one day increase in market cap is bigger than all but 28 companies in the S&P 500. Nvidia is priced for perfection, and nobody is perfect. When the tide turns, it could get ugly.

Our Point

It continues to be all about AI. Yesterday's rally saw most all of the large tech stocks rally significantly on the anticipation that Nvidia's blowout earnings and rosy forecast will continue to spill over to the rest of the tech sector. However, breadth continues to struggle as the equal weight S&P (RSP) remains a laggard when compared to the market cap weighted S&P. For the year, the market weighted S&P is up 3 times as much as its equal weighted cousin illustrating the effect that Nvidia and the rest of the magnificent 7 stocks are having on market returns. With so much riding on so few stocks, the potential for a sharp decline increases daily. We are in no way turning bearish, but we do believe that the market is overdue for a correction. The bull market is intact but overstretched and a decline of 5-10% would be healthy for the market at these levels and would do nothing to the overall bull market trend that started last October. We would be enthusiastic buyers on a significant correction. Earnings season is wrapping up so the market will be looking for other stimuli to react to. Fed minutes were released earlier this week and revealed no surprises. We'll get a number of Fed members giving speeches over the next few weeks that could provide some reason for the market to continue up or pullback. With potential rate cuts being expected sooner rather than later, any disruption to that narrative could provide the fuel for a decline. Next Thursday the government will release the PCE (Personal Consumption Expenditures Index) for January. With the PCE being the Fed's favored indicator of inflation, a confirmation of the increase in inflation reported by the CPI and PPI earlier this month, could damper market expectations of both the timing and degree of future interest rate cuts. With yesterday's large gains, we decided to book some profits and pared our equity exposure. Nobody ever lost money taking a profit. We sold a little bit of all of our equity positions but kept our bond holdings intact. The move frees up cash to redeploy on any correction and gets us a little more defensive. It is rare to sell at the top and we could continue up a little bit more, but we believe we are closer to a short-term top than not. We will reassess should the market take another leg up. As we near the end of February, March madness is right around the corner. It is my favorite time of the year. With Spring springing and college basketball heating up, it always brings a smile to my face. With the Vols in the thick of things, the smile is a little broader this year. Have a great weekend and enjoy the first vestiges of warmer weather.