Bills Asset Management

BAM MARKET NOTE

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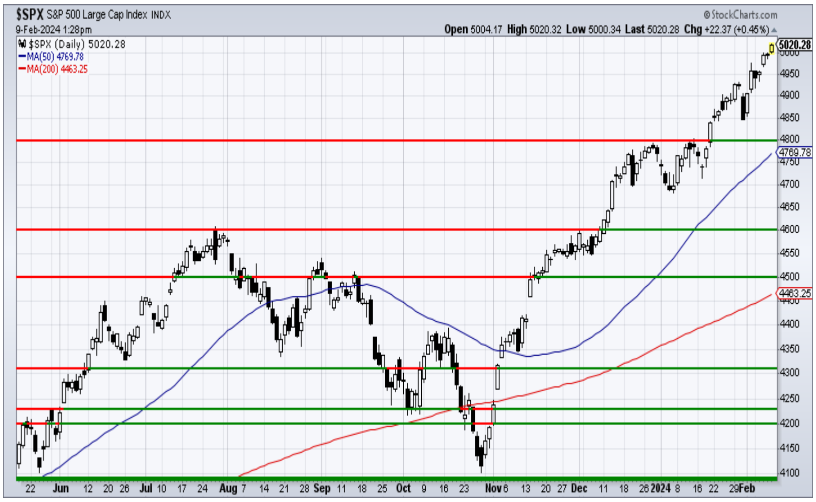

The S&P keeps charging upward and onward. After a slow start to the year, the widely followed index has broken through its previous highs at 4800 with hardly a pause and has now reached the psychologically important area of 5000. While there is nothing magical about 5000, it does have an effect on sentiment as we are already seeing celebrations in the media for this round number. At these levels, we are overbought and at about the furthest we have been above the 50-day moving average in some time. Some pause/correction is likely over the next few weeks. A move back to 4800 would be a healthy correction. The market is acting a lot like last year, so we may have more upside from here, but caution is warranted at current levels.

We shared this chart a number of times last year to illustrate the narrowness of stocks participating in last year's rally. RSP is an equal weighted S&P proxy etf. Accordingly, the outsized gains of the largest of the S&P companies are treated the same as that of the smaller S&P companies. While the S&P 500 is up 5% this year, RSP is up only .5%. The stark difference is due to the largest of the tech stocks and their drastic outperformance. The lack of market breadth is concerning but, as we saw last year, can last longer than many expect.

Our Point

Despite the Fed's more hawkish tone last week, the markets continue to churn higher. Small caps, which would greatly benefit from interest rate cuts, sold off after the Fed meeting last week but, interestingly, have bounced back strongly this week. It seems, again, that the market continues to discount Chairman Powell's words and remains in the camp of several rate cuts this year. Time will tell but Powell has been true to his words to this point, and we believe that, absent a recession, we will get fewer rate cuts this year than the market anticipates. Earnings season is going strong but many of the big names have already reported. We'll continue to get daily releases but their effect on the market will become less and less over the next week or two. The exception to this will be Nvidia's earnings on February 21st. The stock is already up 40% in 2024 and is a big reason the major indices are up as much as they are. Any hiccup in their earnings or forecast will surely lead to a quick fall in the markets. Next week we'll get another round of inflation data with the CPI and PPI reports. Those will continue to be watched closely for cover for the Fed to become more dovish and lower rates. As you may recall, last March we had a significant sell-off in regional banks and many worried that we would see a contagion effect from the failure of Signature Bank among others. The sell-off was short-lived as the Fed stepped in with liquidity to prop up the smaller banks. That program expires next month. Last week, we had another large regional bank, New York Community Bank (NYCB) fall precipitously on commercial loan concerns. It is now down 60% this year and highlights one of the lingering effects of Covid. The work from home movement is leaving many office buildings vacant. As these leases come up for renewal, more and more companies are shedding much of their leased office spaces leaving large office buildings with less revenue to service their debts. To further exacerbate the issue, financing for those office buildings were done with interest rates much lower than current levels. As new loans are negotiated, it is becoming increasingly difficult for the office buildings to pay their bills. All that to say, banks are not out of the woods and with the Fed's backstop expiring in a few weeks, we could see more pain in this area that could spill over to the market in general. One of many things we are monitoring. We sold a few positions this week to take some profits and lighten up a bit. We wanted to have a little more cash available to use on any correction. This weekend marks the end of football season and is always bittersweet. Who ya got? Chiefs? 49ers? Or Taylor Swift? Enjoy your weekend.