Bills Asset Management

BAM MARKET NOTE

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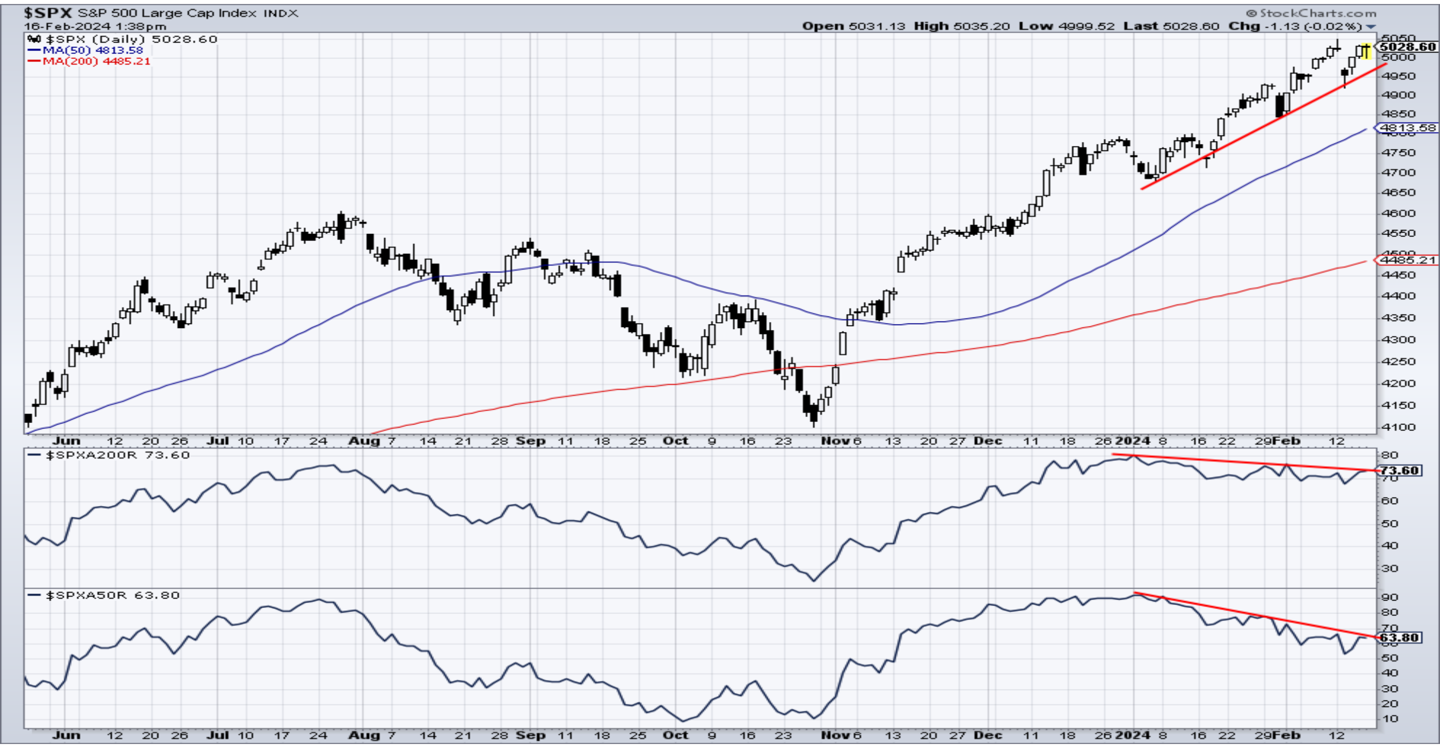

Our Point

It has been a volatile week for the markets with big moves in both directions. Despite all the volatility, the S&P looks to finish the week mostly flat. On a positive note, there has been some rotation from the big tech leaders to the smaller stocks. While the Nasdaq is down close to 1% this week, the Russell 2000 is up close to 2%. In the chart above, I show the trend of the S&P this year. As you can see, the S&P has continued its strong uptrend that began late last year. The bottom two charts represent the number of stocks within the S&P 500 that are above their 200 day and 50 day moving averages. In a healthy market where the S&P is trending up, you would expect more and more stocks to be climbing above their 200- and 50-day moving averages. That is not currently happening as the number of stocks within the S&P above those moving averages have actually fallen significantly this year. It is a continuation of the theme of our market notes this year and much of last year. The largest of the large companies are pulling the major indices upwards. The divergence continues to raise concerns to the overall health of the market. It would be constructive to see small caps string together a few strong weeks and narrow the gap. A rally that is supported by many stocks is much healthier than one that is driven by a few. The market will get a big test next week as one of the leaders reports earnings. Nvidia has been the poster child of the AI revolution and one of the stocks pulling the major indices up. Last year it was up an astounding 239%! Not to be outdone, it is up 48% in the first month and a half of 2024. NVidia reports earnings next Wednesday and expectations are high for another blow-out quarter and lofty forward guidance. A disappointment by Nvidia will be a big test to whether or not the rotation this week is just a weekly blip or something more substantial. Inflation data this week disappointed as both the CPI and PPI both reported rising inflation. Markets fell hard on Tuesday's CPI release. Small caps were hit particularly hard, falling over 4%. However, surprisingly, the small cap index has recovered all those losses and look to log a weekly gain. The strong bounce back is encouraging and indicative that the markets continue to believe the Fed will soon begin lowering rates despite the hiccup in the inflation data. The Fed's favored inflation marker (PCE) will be reported at the end of February and will, perhaps, hold much more weight than the CPI and PPI. It has trended lower than CPI and PPI and has a much lower housing component, so it appears that Wall Street is also banking on PCE to reverse any ongoing concerns of inflation. A higher reading on PCE will likely have a much more significant and lasting effect on the markets. We made no changes to our portfolios this week and remain mostly invested with a little cash available to deploy on a correction. Enjoy your weekend wherever it finds you.