

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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Our Point

It has been a big week on Wall Street with five of the “magnificent seven” stocks reporting earnings and the Federal Reserve deciding to keep rates unchanged for now, while also tampering down expectations of a March rate cut. After what seemed like a victory lap at the last Fed Meeting, Chair Powell indicated that he and the committee remain intent on bringing core inflation down to their 2% target. He went as far to say that the current consensus is that a rate cut in March is unlikely, but that they will monitor the data and act accordingly. The market did not welcome the hawkish pivot and sold off sharply on Wednesday. However, blowout earnings by Facebook and Amazon on Thursday injected the market with some much-needed support. The two are up 22% and 8% respectively for the week and have once again illustrated how instrumental the Magnificent Seven have been in maintaining this bull market run. Jobs numbers came in this morning and posted a strong increase in January, expanding by 353,000 jobs, nearly double the Dow Jones estimate. The economy remains strong and the jobs report signals that we are on sound footing to start the year. While the mega-cap stocks carry the major indices higher, small-caps have found their way back to where they were exactly one year ago. The health of smaller companies in a sustained bull market run is critical, and we have yet to see them keep up with the performance of their larger counterparts. I have charted small caps above and circled where we are right now. I highlight this area because IWM (small-cap ETF) is at a pretty major support line that also happens to coincide with the 50-day moving average (blue line). It will be quite constructive to watch the price action next week and see if IWM can leverage this area of technical support and push higher. It is something we will be watching and could provide insight on where the market is headed in the near term. At some point, the small-cap and mega-cap companies will start to converge; whether small-caps play catch-up or big tech sells off to fall in line with the rest of the market is left to be seen. We remain bullish and still believe pullbacks should be bought, but we also recognize the market could turn lower quickly. We will be watching closely. While we did not make any changes in our portfolios this week, we have discussed upgrading some of our lower volatility positions into more growth-oriented investments. We will continue to attempt to rotate into areas of strength as the opportunities become available. The sun is out, and it is an absolutely beautiful day in Middle Tennessee. Please enjoy your warm weekend and as always, thank you for reading.