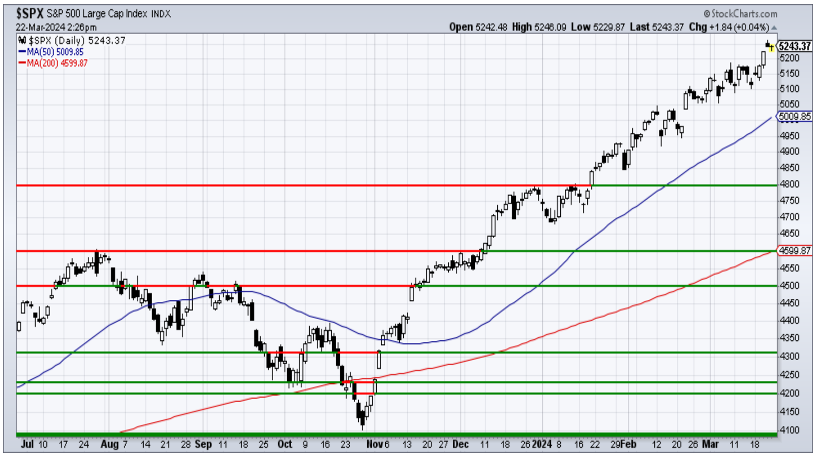
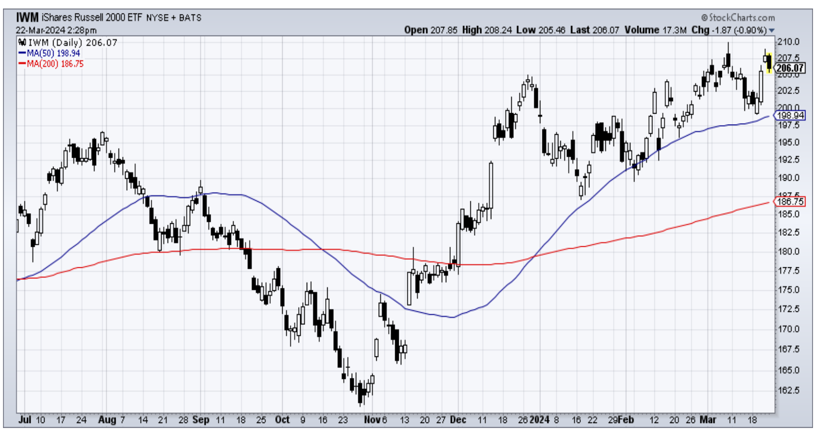
Bills Asset Management

BAM MARKET NOTE — **Bo Bills** (615) 371-5928

March 22, 2024 — **Carter Bills** (615) 585-6867



The S&P continues to be in uncharted waters as it surged after Chairman Powell spoke about interest rates. After a brief pause with mild losses over the last 2 weeks, the S&P is up another 2% this week with no end in sight. Of course, this run will end, and we will get the long-awaited correction. However, with the Fed meeting out of the way, it does look like the path of least resistance continues to be up in the very near term. From a risk management perspective, I wouldn't go all in here but there is no reason to sell anything either. Enjoy it while it lasts – it won't last forever.



Small caps have been the unfavored son over the last year plus. However, they will be among the biggest beneficiaries of a rate cutting environment. After weakening last week after the hot inflation numbers, they have made up those losses and more on Chairman Powell's surprisingly dovish comments. After approaching the 50-day moving average, small caps bounced back up close to their recent highs. We maintain a position in small caps and may soon add to those positions. Small caps are likely to be an outperformer once interest rates are settled.

Our Point

After last week's hotter than expected CPI and PPI, many observers (us included) thought the Fed would back off Wall Street's expectations of rate cuts. Instead, Chairman Powell leaned into those expectations. While rates were, as expected, left unchanged, Chairman Powell reiterated his desire to begin cutting rates later this year. There was no talk of raising rates as a few had feared. The message of an intended 3 rate cuts in 2024 sent the markets dancing. To put a cherry on top, the Fed also raised GDP expectations for the year. It was the best result the markets could have expected. Lower rates and greater growth is never a bad thing. The markets are now pricing in the first rate cut at the Fed's June meeting. With the election in November and the Fed unlikely to change rates leading up to the election, the Fed will be hard pressed to get 2 rate cuts in before a potential last cut after the election. The markets will be very disappointed if the Fed changes its recent dovish comments. Markets act like a rubber band – the further stretched the markets get to the upside or downside the bigger move will be when the markets turn. With the markets stretched to the upside, we will likely get a rather significant correction sometime over the coming weeks. However, the markets can get more stretched! The current pace of gains cannot be maintained for much longer and we continue to expect a pause and/or correction over the next few weeks. It is unknowable what will cause such a decline but setting stops on your holdings will mitigate the risk. With the unknown of the Fed meeting now past, we added a couple of positions this week and will continue to evaluate additional positions with our remaining cash holdings. The markets aren't the only thing dancing as 64 teams embarked on a quest for the NCAA basketball championship yesterday. We are down to 48 teams this morning and will be at 32 teams by this evening. The Vols looked impressive last night and will be one of those 32 teams. They will face a stiffer test tomorrow night to reach the sweet sixteen and the second weekend of the tournament. With basketball and warmer temps, it is a fun time of the year. Have a great weekend and I hope your team joins the Vols in the second round.