BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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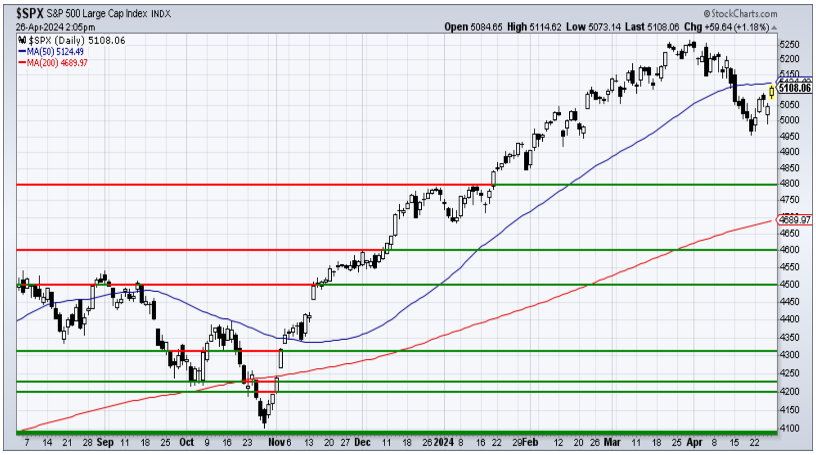

Last week, we mentioned that a reflexive rally would not be unexpected. Similarly, we noted that the upper end of any reflexive rally would be bound to the upside by the 50-day moving average. As expected, we did get an oversold bounce this week as the S&P looks to finish the week up close to 3%. Likewise, the widely followed index is right at the upper end of where we thought we would get a pause in the rally. While correct on the rally this week, the markets might surprise us and head higher from here and not pause at the 50-day moving average. Earnings are clearly driving this market.

As you can see, treasury yields moved broadly higher to start April. The rise in yields coincides with the growing reality that the Fed funds rate is likely to remain higher for longer. It is no coincidence that the market fell as treasury yields rose sharply. That said, even more important than interest rates is the state of the economy and expectations of where the economy is headed. Accordingly, earnings will always trump interest rates.

Our Point

There was a slew of important earnings releases and a big economic report this week. Four of the Magnificent Seven reported earnings this week and 3 of them responded very favorably. Three out of four ain't bad. Tesla started things off with weak earnings but a perceived plan for the future. It surged almost 20% erasing some of its big losses for the year. Meta (Facebook) came next and reported strong earnings but a perceived warning on future earnings. It fell 11% and gave back a portion of its large gains this year. The two releases illustrate why future earnings guidance is much more important than the headline numbers that largely get reported. Yesterday afternoon, Google and Microsoft both also released earnings and are up strongly today. Google is up nearly 10%. The largely positive earnings from 3 out of 4 of the bellwether stock market members overshadowed a disappointing PCE report on inflation. The PCE came in hotter than expected and confirmed what was seen in the CPI and PPI reports earlier this month. At least recently, inflation has stalled and may even have started to creep back up again. The higher PCE almost assuredly will keep the Fed from doing anything at its May meeting and likely will push rate cuts further out than the June meeting. Of course, new data between now and then could change things but it is looking less and less likely that we will see 3 and maybe even only 2 rate cuts this year (if that). A rate hike remains a possibility though extremely unlikely before the election. With the new inflation data and the approaching election, we may not see any Fed movement until the last meeting of the year in December. At least for this week, earnings overshadowed any interest rate talk. We will have another active round of earnings next week. With the oversold rally done, we will see if the market wants to go up or if more weakness will return. Earnings will drive the market over the next couple of weeks. We put some of our excess cash to work earlier this week buying positions in the Nasdaq 100. We also purchased a low volatility fund that has been performing well. We are nearing a fully invested posture and may put more cash to work next week depending on market conditions. After an unseasonably warm start to April, we are now enjoying a glorious spring in Tennessee. It won't last so enjoy it while you can. Have a great weekend wherever it finds you.