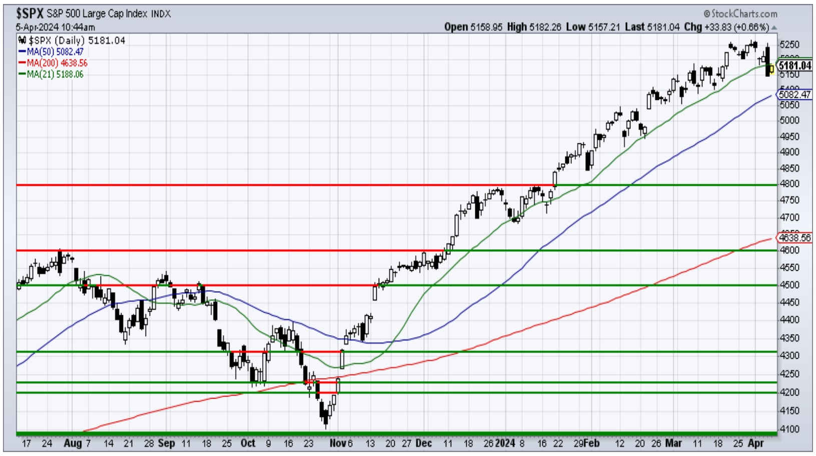
Bills Asset Management

BAM MARKET NOTE

April 5, 2024

Bo Bills (615) 371-5928

Carter Bills (615) 585-6867



Volatility has picked up a bit over the last couple of weeks as the market tries to determine where it wants to head next. Yesterday's decline could be significant. I added a 21-day moving average (1 month) to my usual chart. As you can see, since the bottom last October, the S&P has only breached this line twice – both were one or two days before bouncing back above this line. An extended stay below this moving average line could foretell more weakness. The break down yesterday is a warning sign. Should the market fail to bounce back today or next week, it will become increasingly likely that the long-awaited correction has started.

We haven't written about high yield bonds in several weeks as the trend has been mostly sideways. Sideways isn't all bad for high yields but it does indicate that traders are not excited about taking on too much risk. High yields declined with the markets yesterday and are nearing their 50-day moving average. Similar to the S&P, the 50-day moving average is a clear demarcation. A break below this line in the coming days would add further evidence that a correction is coming.

Our Point

Yesterday's decline marked the second largest decline since the market bottomed last October. After being up most of the day, the market headed south in the afternoon. Tempering comments on rate cuts by a few Fed officials and increased tensions in the Middle East were the likely culprits for the weakness. Continued strong employment numbers this week lessens the chance of a June rate cut by the Fed. The Fed Funds futures are approaching a coin flip with whether or not the Fed actually does cut in June. With the election coming in November, the Fed is under the clock to get rate cuts in before it gets too close to the election (where it can appear that the Fed is playing politics). Of course, the Fed does play politics. A series of rate cuts before the election would favor the incumbent as the market would rally on the news. Chairman Powell is human and Trump has already let it be known that he would not retain Powell should he win. Chairman Powell's decisions on a rate cut directly influence his job security over the coming year. Under the current scenario, it is difficult for him to remain independent and completely data-driven. Earlier this week, Israel bombed the Iranian embassy in Syria killing three high ranking Iranian military officials. The retaliatory strike against Iran for its proxy war (Hamas, Hezbollah, and Houthis) sets the stage for direct action by the Iranian government. Israel is on high alert and some sort of strike is likely. The fear of an escalation is a headwind for the markets. At this point, long-term market risk is low as an escalation does nothing to the US economy. However, an escalation that drags the US further into it or that drives up energy prices could have lasting effects. We made no changes to our holdings this week and still hold a little cash while waiting for a pullback. If the market continues to weaken, we will raise more cash. We are comfortable with our current portfolio and await better entry points for our growing buy list. The final four is a little less exciting without the Vols but I will still be watching this weekend. I will also be looking up at the skies on Monday to catch a glimpse of the eclipse (don't forget your glasses!). Have a great weekend wherever it finds you.