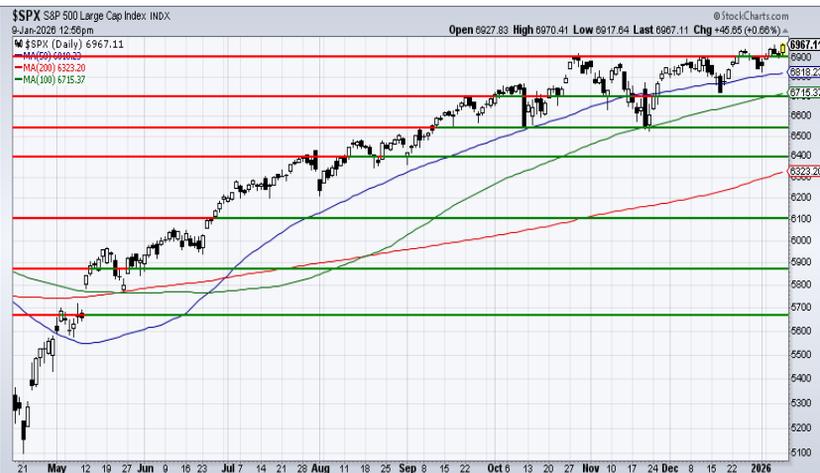


BILLS ASSET MANAGEMENT

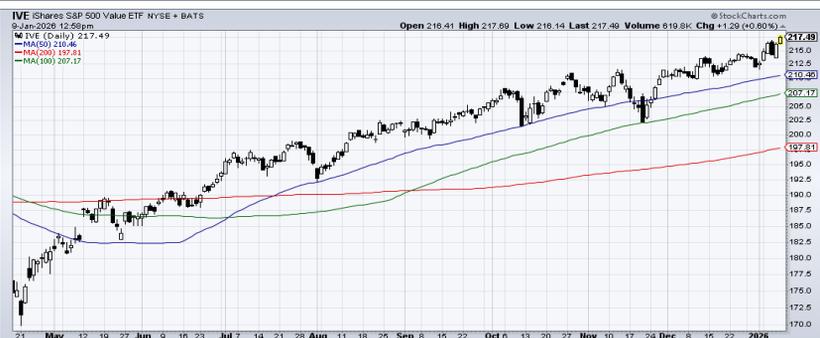
BAM MARKET NOTE

JANUARY 9, 2026

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While the traditional Santa Rally never arrived, the market has started off strongly in 2026. The Santa Rally is defined as the last 5 trading days in December and the first 2 trading days in January. This year, the S&P saw a loss of .1%. Not significant but also not the expected rally. However, for January the index is up nearly 2% as of this writing. You'll hear lots of talk of 1st 5 days and January effect over the coming weeks. While there is some validity, every year is different and, while positive so far, things can change in a hurry. The S&P has moved to new highs and 7000 is in sight. We are likely to see it in the coming days. The old highs now become support.



For the last few market notes, we have talked about the subtle shift in market leaders. The tech stocks that have led for the last couple of years have recently taken a back seat to the staid value names. While the shift has not been dramatic, it has been going on for over a month and deserves a little respect. We will continue to monitor this developing trend to see if it continues and what changes should be made to our holdings.

Our Point

Our last market note was 3 weeks ago and not much has changed over that time. The S&P and Nasdaq are up around 1% over that time. However, the big story is the performance of small caps – they are up 3% over the same 3 weeks. It is a theme we have been discussing for a few months, and we shifted some of our portfolio to small caps in the latter part of last year's 3rd quarter. With the government shutdown behind us (hopefully), economic data is flowing again. This morning's jobs report was well-received by traders. The report showed new jobs of 50,000. The number was good enough not to induce fear of a slowing economy but poor enough to keep Fed interest rate cuts on the table. The Fed meets again at the end of the month, and Fed Funds futures do not anticipate any movement on rates. However, the chances go up significantly as we get into the rest of 2026. As we have noted here, Fed leadership will be changing in May to someone of President Trump's choosing. The announcement of the successor is expected over the next few weeks and could spark a rally or sell-off in the markets. It is very likely that the Fed will shift to the dovish side with the new chairman. Short-term that will be good for the markets, but longer term could be problematic. If the Fed becomes too dovish (we do believe that the current Fed has been too restrictive), inflation could again become an issue. Also, Wall Street would very much like an independent Fed. If Trump's pick is perceived as a mouthpiece for the White House, it could do damage to the credibility of the Fed and the markets. We will be watching closely. Next week brings earnings as the large banks kick off the earnings parade. We would expect good earnings from the likes of JP Morgan, Citi, Bank of America, etc. As always, while many focus on the historical reporting of last quarter's results, forward guidance is just as important (if not more so). Banking stocks have been strong over the last month so we might see a little profit taking on results. However, strong reports could set the stage for further strength later in the quarter. As noted above, value stocks (financials included) have seen some relative strength over the last month. Accordingly, we have shifted some of our holdings and purchased two new value positions while paring some of our gains in our tech holdings. We remain fully invested and will potentially shift more assets over the coming weeks as the market dictates. We are optimistic for 2026, but it is likely that volatility increases. We had a wonderful Christmas and New Year with nearly 30 of the Bills family gathering in Knoxville. It was a memorable Christmas as all the kids were swimming in my nephew's pool during our celebration! I don't think they will forget the Christmas that they swam! We hope you also had a wonderful holiday season. Here is hoping for a very prosperous, healthy and happy New Year! Enjoy your weekend wherever it finds you.

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