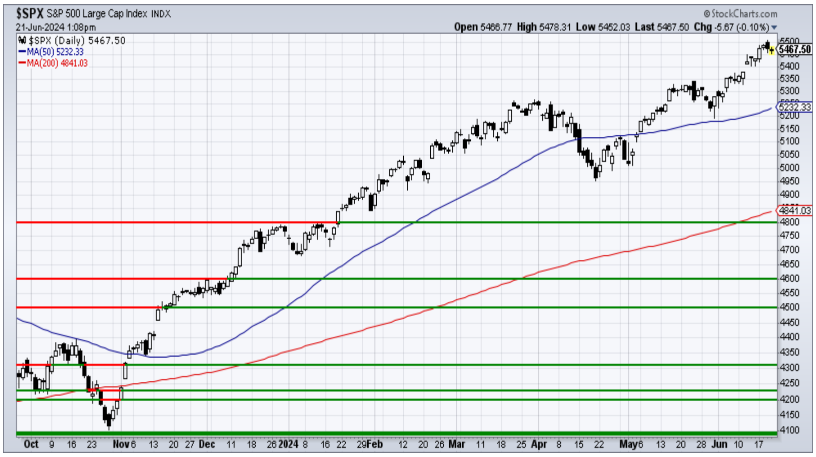
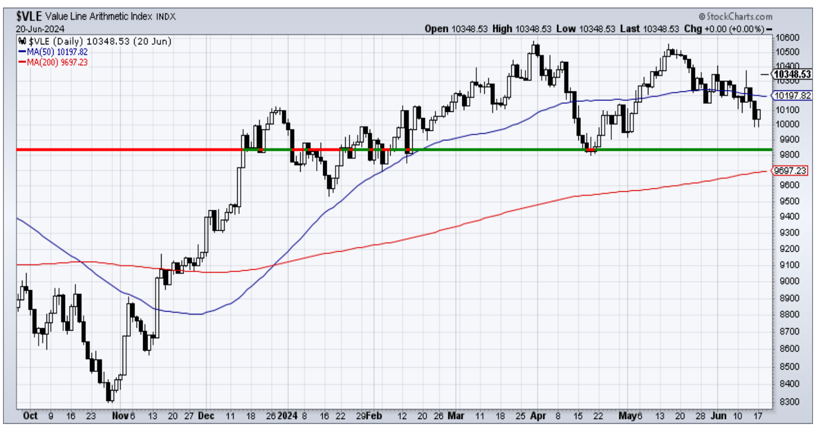
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JUNE 21, 2024

BO BILLS (615) 371-5928
CARTER BILLS (615) 585-6867





The song remains the same. The S&P looks to log another positive week – its eighth out of the last nine. Since the 5% pullback in early April, the index is up over 10%. The market continues to be stretched to the upside and its deviation from the 50- and 200-day moving averages are at or above the point where prior corrections took hold. Despite the headlines, this is not an occasion to move money into the markets. While it is not a time to sell, it is a time to be vigilant, wary and cautious. We are doing all of the above and are beginning to ease over towards the exit. A better opportunity will come to put any excess funds to work.

As we have shown a number of different ways over the last several weeks, the current market is being driven by an ever-narrowing group of stocks. It is not healthy when the generals are leading, and the soldiers are languishing. Something will have to give soon. The VLE represents approximately 1700 stocks held in equal proportions. While the S&P and NASDAQ (cap weighted indices) have reached record heights, the VLE is up less than 1% this year and well off its highs. While the S&P has surged over the last several weeks, the VLE is in a well-established down-trend. Caution is warranted.

Our Point

As legendary GE CEO Jack Welch (among others) once said, “If you’re not confused, you don’t know what’s going on.” It is indeed a confusing market. While the headlines are screaming a raging bull market, a look under the surface shows a very different scenario. A handful of stocks are driving nearly all of the recent gains in the market. The likes of Nvidia, Microsoft, Amazon, Netflix, etc… are all overweighted positions in the cap weighted indices and all are having stellar years. In fact, Nvidia is up an annualized 700% since the beginning of this year. For a company this large, the results are astounding and unsustainable. Even the bullish of bulls don’t believe that Nvidia can maintain the pace of this stock surge. When the correction in Nvda comes (and it will come), the negative effect on the major indices will be similar to the positive effects we have been enjoying. Lest you think we have become bearish – nothing could be further from the truth. We remain very optimistic for the remainder of the year, but we do expect a significant (5-10%) correction in the major indices in the near-future. The reset would be welcome and would remove some of the unhealthy exuberance we are currently witnessing. Next week we’ll get GDP and PCE reports. The Thursday GDP report will be the second reading of 1st quarter GDP and will give a meaningful update on the state of the economy. On Friday morning, we will get the all-important PCE inflation report. Surprises in either direction of the inflation report will move the market. To add to the data and potential confusion, July has been among the strongest market months in recent years so there will be headwinds for the bears to battle should a sell-off come. We made no changes to our holdings this week and have been enjoying the rally this year. However, as noted above, we are becoming increasingly concerned with the advance. We won’t hesitate to get a little defensive should the correction unfold as we expect over the coming few weeks. It’s going to be another scorcher of a weekend so indoor projects will take precedence. My Vols will be playing this weekend for their first College World Series championship. It’s a good weekend to stay inside. Go Vols and enjoy your hot humid weekend.