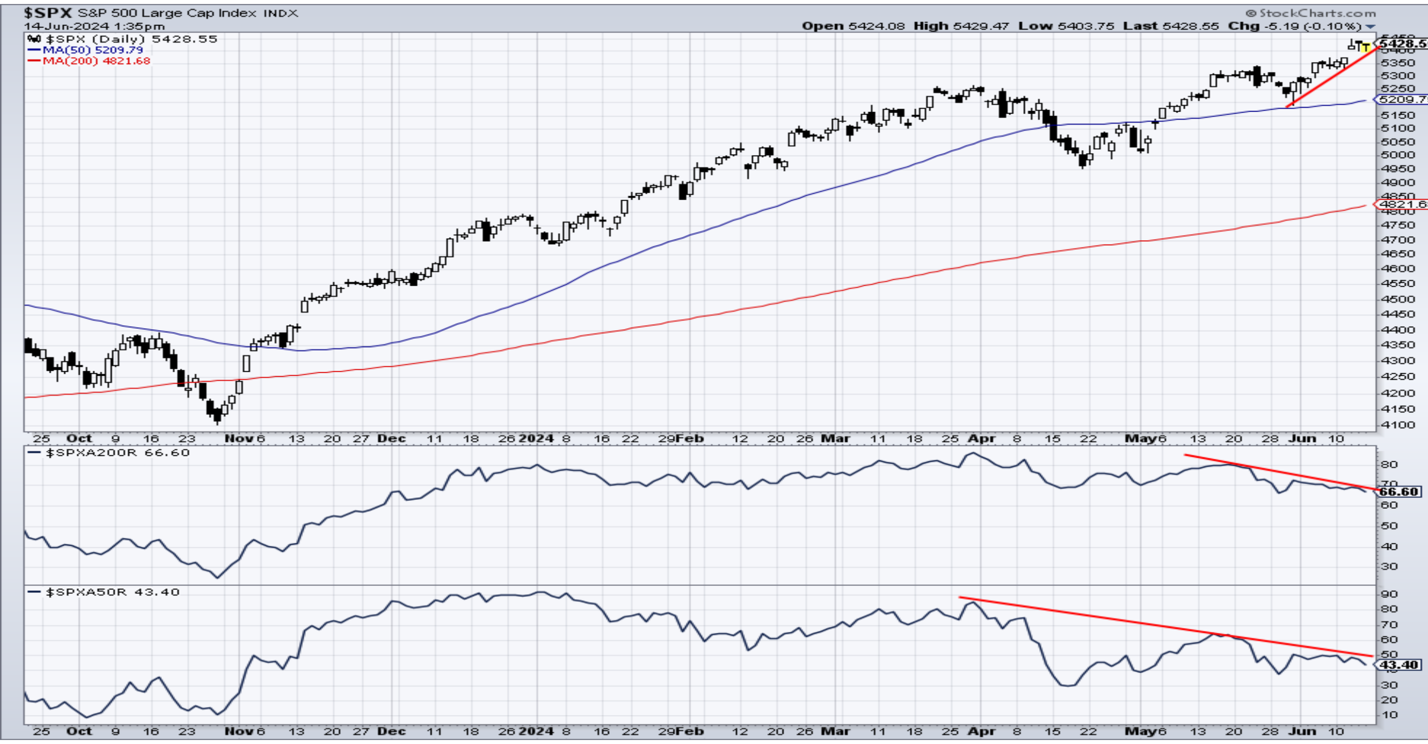
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JUNE 14, 2024

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



Our Point

Despite the plethora of data, it has been a pretty mundane week in the markets. Inflation data came in a tad lighter than expected but not enough to change the Fed outlook significantly. The data did increase the chances of a September cut modestly. The markets initially rallied on the CPI numbers but gave back a large part of the rally by the end of the day. Small-caps (which would be among the biggest beneficiaries of interest rate cuts) started Wednesday on a tear but faded into the close and have now given back all their gains for the week. As expected, the Fed made no change in their current policy and the statement after the announcement was similarly mostly unchanged from the last meeting. The Fed's policy of higher for longer and being data dependent continue to be the theme. What initially looked like a catalyst for another leg up has fizzled for the broader market. However, that is not to say that the major indices went down. The cap weighted S&P and Nasdaq look to finish the week with another strong showing. As of this writing, weekly gains for the S&P and Nasdaq are 1.5% and 3%, respectively. A look below the surface provides a different view of the market. While the indices are logging new highs, many of the components of the indices are struggling. It is a nuance of a cap-weighted index. For example, Nvidia alone has accounted for over 35% of the gains in the S&P this year. The other 499 stocks have accounted for the remainder. On an equal weight basis, the S&P is only up 4% this year. In the above chart, you can see this illustrated. The S&P is in a strong uptrend while the number of stocks in the S&P that are above their 50- and 200-day averages are falling. Only 43% of the stocks in the S&P 500 are actually above their 50-day moving average with the numbers falling since April. We had a similar situation last year that culminated in a summer correction of over 10%. Something has to give. When the largest of the large caps stumble (which will happen at some point), the rest of the market will follow – perhaps precipitously. It is not a particularly healthy market advance. That said, there is money to be made and we are participating while keeping a sharp eye on the exit door. We remain bullish in the near term but do think the markets are in need of a reset and we are becoming a little more cautious in our thinking. A significant pullback remains a buying opportunity but buying in at current levels carries a higher level of risk than usual. We made a small purchase in our moderate portfolio this week but otherwise held what we have. Our portfolios have performed well and, while we believe risk is a little elevated, the markets can remain irrational for longer than many believe. We are enjoying it while we can. Today marks the beginning of the College World Series and I will be watching the OmaVols this evening in their quest for a National Championship. The first heat wave of the season is also due this weekend with temperatures approaching 100! I will spend the weekend watching baseball and doing inside chores. Happy Fathers Day to all the dads and enjoy your weekend.