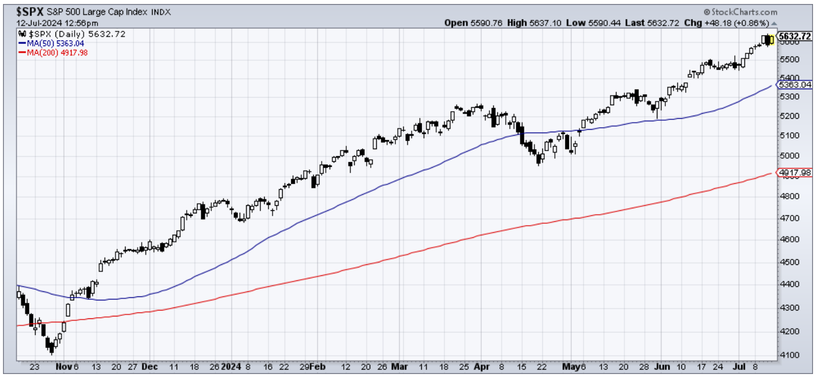
Bills Asset Management

BAM MARKET NOTE

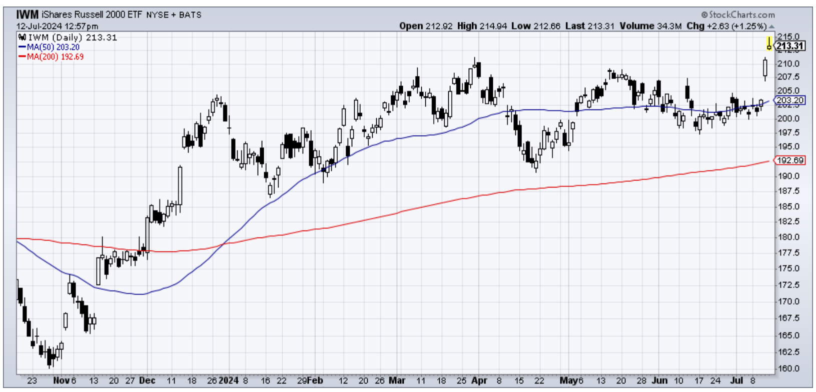
July 12, 2024

Bo Bills (615) 371-5928

Carter Bills (615) 585-6867



The third quarter has started much like the first 2 quarters. The melt up in the major indices is continuing with another couple of weeks of up markets. It just doesn't seem like the major indices want to go down. That will change in the coming weeks, but we are enjoying it while it lasts. We still believe that a significant correction is coming – along the lines of 4-10%. Any correction should be used to add exposure should you have any excess cash.



A couple of weeks ago, we showed this chart and mentioned the concern that the Russell 2000 was not participating in the rally. At least for the last 2 days, that concern has been allayed. It's only been 2 days, but the improvement here is not to be ignored. We'll see over the next week or two if the gains can be held and added to or if the recent surge is just a knee jerk bounce on hopes for a fed rate cut. We have a position in IWM and could be adding to it should the rally hold.

Our Point

CPI and PPI provided very different views on inflation. While CPI ticked down a little, PPI went the other way showing inflation increasing. It is a muddled mess with inflation still holding steady and not declining or increasing with any real significance. However, the market seems to have grabbed hold of the CPI report and largely ignoring the PPI report. The PCE report in 2 weeks will be the tie breaker. With the decrease in CPI, the odds of a Fed rate cut increased dramatically with the probability of a rate cut in September surging to nearly 90%. Additionally, the odds of a second rate cut also increased significantly with a another cut likely in either November or December. The potential for interest rate declines is a large reason that small caps surged as much of their debt is tied to bank loans that will fall with Fed rate cuts. Yesterday was an odd trading day and illustrative of the effects of the tech sector and the magnificent seven. While the indices were broadly down, most of the underlying stocks in the S&P 500 were broadly up. However, the overweight in MSFT, NVDA, TSLA, META, AAPL, AMZN, GOOG, etc. drug the indices lower. While a down day looks bad, the relative performance of those companies not in the tech sector was a healthy development. Most everything is bouncing today even though the PPI came in hot. The market is melting up and that likely will continue through earnings season. In recent history, July has been among the best of market months. The S&P has had 9 straight positive Julys, and the Nasdaq has had 16 straight! The gains have averaged 3.7% for the S&P and 4.6% for the Nasdaq. Goldman Sachs surmises that the flood of cash contributions from beginning of the month, beginning of the quarter and the half-way point of the year flows into stocks producing an outsized demand and a corresponding rise in prices. Regardless of the reason, recent history is worth noting. At some point, we'll get a down July for one reason or another but with the election year bias already up, we are likely to finish the month in the black. August could be another story and we would be expecting any correction to occur then. As always, it should be noted that we don't invest based on what we think might happen but rather on what is happening. So, while our thesis and stats above are interesting and does show an upside bias, it should only be used to add color to your investing decisions. Price never lies and we will always follow what the charts say and not what history or experts expect. Earnings will come into focus over the next couple of weeks as the quarterly parade begins in earnest. The big banks kicked off earnings season with JP Morgan, Wells Fargo and Citi reporting this morning. Results were mixed but all are down in today's trading. We made no changes to our portfolios this week and continue to enjoy the market gains. Have a great weekend wherever it finds you.