Bills Asset Management

BAM MARKET NOTE

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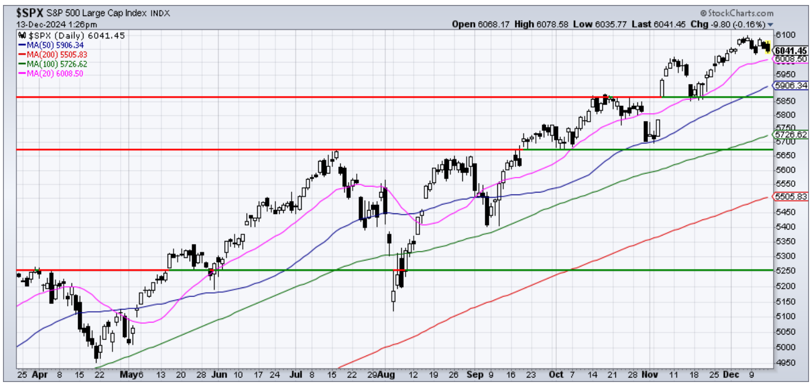

As we mentioned last week, it is unsurprising that the markets drifted down a little this week. The market had gone up a lot in a short period time and some level of consolidation/weakness was expected. We are also in the midst of mutual fund distribution season which always leads to a little extra volatility. Distributions are coming to a close and the markets should resume trending up. I added the 20-day moving average to the chart as another area of support – the S&P may touch this level before turning back up. We remain bullish for the remainder of this year.

One concern is the weakness in the S&P equal weighted index. While the S&P 500 continued up to start the month, the equal weighted S&P 500 has been weak and is down over 3% this month. As you can see it rests right on it's 50-day moving average. If the selling is going to abate, now would be a logical place. The relative performance of RSP to the S&P illustrates that the large tech companies have re-assumed their leadership role. A healthier market would have the rally broaden to include all companies and not just the largest ones.

Our Point

As expected, the markets took a pause this week. Despite the froth in the markets from a great November and a good start to December, the pause has been very mild to this point. For the week the S&P is down ½%, the Nasdaq is flat, and small caps are bringing up the rear with a 2.5% decline. The equal weighted S&P is down almost 2%. Large cap tech companies are keeping the major indices from correcting too much. As you recall, that was much of the story last year as most companies finished the year with small gains, but the indices finished strong on the results of the Magnificent Seven. It does not make for a particularly healthy market, but it is what it is. You can see it very clearly in the etf RSP (equally weighted S&P 500). While RSP has had a strong year, it is a full 11% behind the cap weighted S&P 500. In other words, the overweighted companies of the S&P 500 (the magnificent Seven predominantly) accounted for a full 11% of market returns. Market breadth is a concern. However, as we saw last year, market breadth (or the lack thereof) can persist for a long time. As long as the market generals continue to draw buying interest, the major market indices will continue to reach new highs. While not a general we do have a rising star in the tech world. Some are calling it Nvidia lite! Broadcom (AVGO) reported earnings this morning and soared on its results and outlook. It is up nearly 24% today. This on top of an already astounding 87% gain year to date. AVGO earnings are keeping the Nasdaq afloat today. We got inflation readings this week with the CPI on Wednesday and the PPI yesterday. The CPI came in at expectations, but the PPI showed inflation moving up. The market took the news in stride as a 25-basis point cut by the Fed next week is all but a sure thing. Should the Fed fail to cut there will be a very ugly reaction on Wall Street and Chairman Powell does not want that. However, the strong employment report a couple of weeks ago, followed by less than stellar inflation news, is likely to temper the Fed's dot plot (interest rate projections) for next year. While the Fed decision on current rates is not likely to move the markets (unless they surprise – not very likely), their projections for upcoming interest rate policy could roil the markets. That said, we still believe that Santa will come and that the markets will rally into year-end. There are many tailwinds as we have discussed in prior notes. We didn't make any changes to our portfolio holdings, and we continue to maintain a fully invested posture. While we believe the markets will rally into the end of the year, we are not sitting on our hands and remain vigilant should markets not behave as we believe. As always, we choose to follow the charts rather than what we believe will happen. Have a great weekend wherever it finds you.