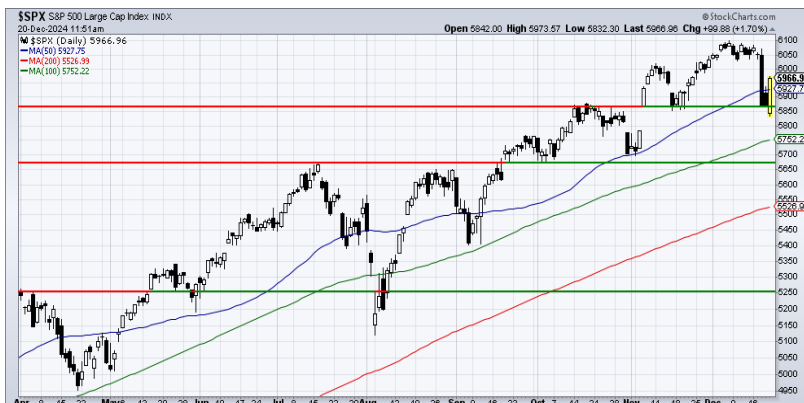


BILLS ASSET MANAGEMENT

BAM MARKET NOTE

DECEMBER 20, 2024

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The consolidation that we spoke of last week turned into a full-blown selling fest as the markets all declined sharply on Wednesday and got only a small recovery yesterday. The markets are firming today but we will have to see if the worst is over – we suspect that it is. The S&P touched the support line we have been watching the last few weeks and held yesterday. It briefly penetrated it this morning but is well above it now with today's rally. Holding this support line will be key as the next level of support is some 3% below. With end of year tailwinds, we suspect Santa will still come though with a little fewer toys.



We showed this same chart last week and noted the sharp decline in the equal weighted S&P despite the weighted S&P moving sideways. It was a concern then and remains a concern. However, the chart does illustrate the concept of oversold well. When any area of the market is down significantly for 15 days straight, it qualifies as oversold! RSP is getting a strong oversold bounce today so, perhaps, the selling has stopped for the near-term.

Our Point

An old Wall Street maxim says that the markets take an escalator up and an elevator down. That maxim held true and was very evident this week as the markets grinded higher for much of November and December only to give back much of those gains in one very bad day! It was a scary drop but despite the quick sell-off on Wednesday, nothing much has changed in the market. As expected, the Fed cut interest rates by another 25-basis points on Wednesday. However, the hawkish tone of Chairman Powell's press conference accelerated the decline. The Fed said what the bond market was already saying. That is, that there will likely only be two more 25-basis point cuts in 2025. Before the meeting, many on Wall Street were expecting four such cuts. While the tone of the Fed meeting proved to be the catalyst for the sell-off, the much bigger reason was that the underlying weakness in the market (see RSP above) bled over to the large cap names that had so far weathered the storm. In reality, the market remains robust and we don't see much risk for much more selling over the next few weeks. The traditional Santa Claus rally should still come though it will be starting from a much lower starting point and is unlikely to recover all the losses of this week. That said, we should get some relief over the next couple of weeks. Once the calendar turns, we will have to see what the new year brings as there will be much more shifting as large institutional investors make their bets on 2025 winners. All of the major indices are oversold in the short-term and we are seeing an oversold bounce today. It will be important to see where the markets close today and if the rally continues into next week. This morning's PCE report came in a little better than expected with inflation ticking down a bit from expectations. That is good news and gave the markets something positive to latch onto. With Christmas next week and New Year's the week after that, there will be little in the way of news for the holiday shortened trading schedule. Volume will be lighter than usual so moves in either direction can be exacerbated. We don't expect any more big moves over the coming couple of weeks but, as we saw on Wednesday, market conditions can change quickly. We didn't make any changes in our portfolios this week but will be spending the next couple of weeks evaluating all of our holdings to find holdings that we expect to out-perform in the new year. While we don't expect to make any drastic changes currently, there will likely be some portfolio adjustments over the coming weeks. With Christmas next Wednesday, I will be doing some traveling and won't be writing this note next Friday. As always, that will change if there are significant news or market events. I am hoping that Santa comes early tomorrow night and delivers a Vols victory in the college football playoff. It is the biggest game for UT since the national championship game almost 25 years ago. From our family to yours, we hope you have the happiest of holidays, the merriest of Christmases, and a Happy and safe New Year. Enjoy spending time with those you love the most!