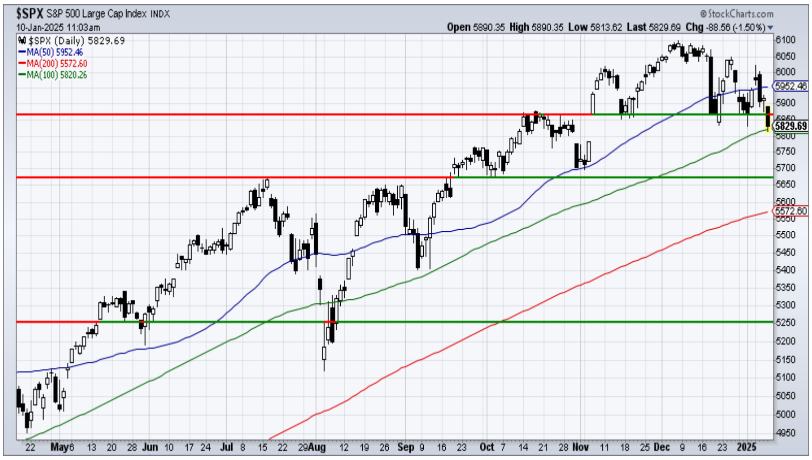
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JANUARY 10, 2025

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



The support level we have been watching and talking about in these pages over the last few weeks has been breached this morning. That is not a good development but closing prices matter more than intra-day activity. Still the move is significant. The next significant level for the bulls to defend is the 100-day moving average. The market has found some support there this morning, but the day is young. We'll see if buyers step in this afternoon to hold support. If not, then we could be headed down another 3% to the next level of support in the 5675 area.

Despite the Fed cutting rates and continuing to promise more rate cuts in 2025, the treasury market is not buying it. As you can see, despite the Fed cutting rates and bringing down the Federal Funds Rate, treasury bond interest rates have been rising significantly since mid-September. Either the bond market or the Fed is wrong about rates and inflation. My money is on the bond market.

Our Point

It had been a quiet week with little market movement before this morning's December job report. The job report surprised to the upside with 256,000 new jobs being created. The consensus expectation was an increase of 155,000 jobs. The strength in the employment numbers reinforces thoughts that the Fed may be unable to lower rates as much as they have indicated in 2025. While the strong employment numbers indicate a relatively strong economy, the market is currently more interested in lower rates than a strong economy. Wall Street wants their cake and to eat it! The fear of an inflation resurgence is bringing out the sellers today. It is always more important how the market closes rather than how it opens so we will see an indication of where this market is headed depending on how the market trades this afternoon. Next week brings a huge slate of economic news with both CPI and PPI giving new readings on inflation and retail sales giving a look at the economy. There will also be a few Fed speeches that will give some indication of Fed thoughts on the recent data. As mentioned above, the Fed and the Treasury bond market are at odds and are saying two different things. One of them is wrong. As mentioned here before, the bond market is most always right so our thinking is that increasing bond yields are signaling fears of inflation moving back up. With the inflation reports next week, we may have our answer on who is right sooner rather than later. With the weakness in the markets, we sold a few positions earlier this week to generate a little cash. We lightened up on both our equity positions and our bond holdings on Wednesday. With today's decline, it was good timing. Despite the weakness in the markets, we remain optimistic. That said, it would not be unusual to see the market decline another 3-5% from current levels. The S&P is already down over 4% from the December highs. A 5-10% correction would be healthy for the markets in the mid to long-term and would set up some excellent buying opportunities. We are getting lots of the white stuff today in Nashville and throughout the South. It is a good day to stay inside or, for the adventurous, to build a snowman! I will be taking my lunch break to shovel the driveway and clear a path. Stay safe and warm and enjoy your weekend.