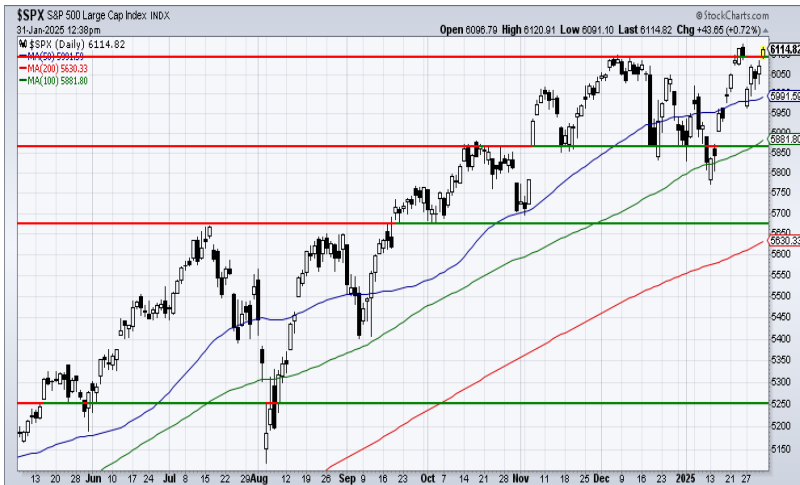


# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

### JANUARY 31, 2025

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It has been a wild week and for none of the reasons why we thought it might be! Monday started off with a dramatic sell-off that felt worse than it was. When the dust settled the S&P finished down 1.5% but the Nasdaq was down over 3%. The markets have rebounded back, and the S&P is on track to finish the week close to where it was last Friday. Importantly, after breaking down below support on Monday, the index is back up above that important level with today's rally. It has been an exciting week where the market really hasn't gone anywhere. Continue to watch support at the 6100 level. We would like to see the market hold above this support and test it over the next week or two. Caution is warranted but nothing currently looks ominous.



We often show the high yield chart as a barometer of market sentiment and as a potential early warning sign to trouble ahead. As you can see the high yield bond market didn't blink on Monday's weakness and shows no signs of current problems with the economy. In fact, high yields are strengthening showing an increased confidence and optimism in the direction of the economy.

## Our Point

The markets appeared to be in Deep Seek at Monday's open and throughout the day. While many stocks weathered the sell off well, nearly all companies with AI components suffered. Nvidia led the way with a 17% loss wiping out \$600 billion in value! It was an ugly day for many in the tech sector. Deep Seek, the relatively new Chinese AI company, released details of its new chatbot which indicated that they could recreate the speed, efficiency and reasoning skills of ChatGPT (the current US leader in the technology) at a fraction of the cost and with less advanced chips. Chip makers (Nvidia and others) fell sharply on the news as demand for their advanced chips was put into question. Other AI related companies followed suit. The news put a chink in the armor of what looked like US dominance of the AI explosion. However, there is reason to be skeptical of Deep Seek. While it appears that it is comparable to its more expensive competitors, China is not known for its honesty or forthrightness. The reported cost of development may well be understated significantly. Additionally, privacy concerns and censoring of information unfavorable to China has already been revealed in Deep Seek's model. Nonetheless, Deep Seek is a significant development in the race for AI dominance. Competition is good and last weekend's news provides a wake-up call for US AI developers. The increased competition will ultimately lead to better models, lower costs, more efficiency, etc. It is a good thing though it did roil the markets. The fireworks we expected from the earnings of Tesla, Microsoft, Apple and Meta never materialized. It was surprising to see Tesla rise on disappointing earnings while Microsoft fell even though they beat earnings estimates. The reason was future expectations as Tesla painted a rosy picture while Microsoft expressed caution. While we didn't expect any movement from the Fed, we were hoping for more guidance on future meetings. The Fed played it close to the vest and generated very little movements in the market. Not always a bad thing. The monthly PCE also generated little excitement as it came in as expected. The earnings parade continues in full force next week with Google, Amazon and Palantir reporting among a host of others. The market will continue to be subject to sharp movements based on reported earnings and future guidance. Despite the scare on Monday, it has been a good January which bodes well for the year. We didn't make any changes in our holdings this week and remain nearly fully invested in all our portfolios. It promises to be a warm and pretty weekend. I will get out and enjoy it – only taking a break to check on the Vols vs. Gators basketball game. Enjoy your weekend wherever it finds you.