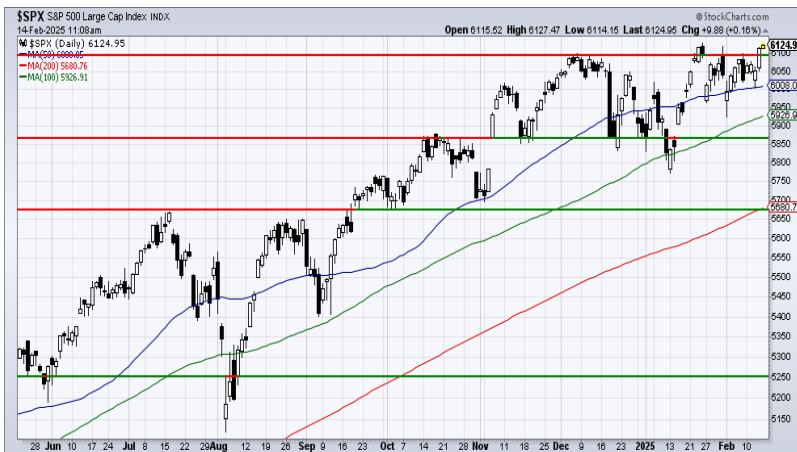


BILLS ASSET MANAGEMENT
BAM MARKET NOTE
FEBRUARY 14, 2025

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



The S&P bounced this week in the face of poor inflation numbers. The large cap index looks to finish the week up around 1.5%. The move up has once again pierced resistance at the old highs. Note, that we had a similar break-out in January that only lasted a couple of days. At this point, the break-out should be respected but it needs to be confirmed by staying above resistance (now support) and some follow through to the upside. At the highs and with an unconfirmed move up, I wouldn't tempt fate here and would wait for more confirmation before getting too excited. There is a great deal of uncertainty in the markets and risk remains elevated despite the market move up.



The value line arithmetic index is a good measure of the overall market. As you can see, it continues to lag the major (weighted) market indices and is a long way from its December highs. Additionally, it is one bad day away from testing the uptrend line stretching back to August of 2024. Market breadth remains a concern. However, as we have seen over the last couple of years, bad breadth does not always equate to weakness in the cap weighted indices. Caution is warranted but fear is not.

Our Point

With Chairman Powell's testimony before Congress and the elevated inflation numbers from the CPI and PPI, traders are changing their expectations of any near-term change in interest rates. In fact, there is some noise about the Fed actually raising rates again this year (not very likely in our opinion). However, the next expected rate cut has been pushed out to December of this year. That is a far cry from market expectations of multiple rate cuts just a few months ago. As we have mentioned in these pages over the last several months, we expected inflation to remain sticky and cautioned about expecting too many rate cuts. Both CPI and PPI disappointed as inflation increased in the latest reports. It should be noted that monthly data is notorious for effects of seasonality and revisions as more data comes in. It is more important to look at the trend of inflation data rather than just the monthly reports. Perhaps that is what the market is doing as it has shrugged at the latest readings. While it did sell off on the CPI report, it mostly recovered by the end of the trading day and actually had a strong day yesterday on the back of the PPI data. Meta (Facebook) and NVDA continue to lead the charge and are countering the weak breadth noted above. Speaking of Meta, it has been on a tear. It has been up for 19 straight trading days and looks to add another up day today to bring the streak to 20 days. It is up over 20% since January 16th as it continues to log up day after up day. It is a streak not seen by any other Magnificent Seven stock. Next week is a short trading week with the markets closed on Monday. It will be a little slow on economic news but we will see a number of speeches from various Fed officials that could shed some additional light on Fed policy. We will also see the latest Fed meeting minutes which could move the market. Market volatility will likely remain over the coming weeks. Markets don't like uncertainty and the speed at which news is coming out of Washington makes it difficult for the markets to keep up. Eventually, traders will adjust to the new normal but until such time we are sure to see headlines move the markets. As mentioned last week, however, we would caution investors to not overreact to this headline or that headline. Instead, let the markets sort it out and follow the price. Despite the volatility, markets have continued to be resilient. We sold one position in our aggressive portfolio this week as we took nice profits on what we knew would be a short-term opportunity-based holding. We have not yet reinvested those proceeds and will wait to see if the markets can continue to hold above support. We remain nearly fully invested across all our portfolios with a small amount of cash to invest on weakness or developing opportunities. Lots of rain in our forecast so stay dry and enjoy your weekend wherever it finds you.