BILLS ASSET MANAGEMENT

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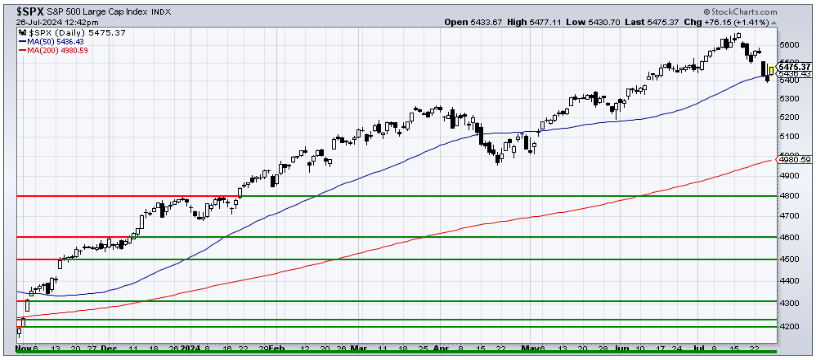
JULY 26, 2024 **CARTER BILLS** **(615) 585-6867**



As we have been warning for the last few weeks, the markets were overdue for a small pullback to digest some of the gains from earlier this year. We have gotten a pullback of just less than 5% on the S&P. The large cap index breached the 50-day moving average yesterday but is climbing back above it today. The pullback is at the lower end of our expectations but may be enough to draw in buyers and stem the losses. Today's move is encouraging in that regard. We'll see if the market can hold today's gains at the close and into next week.

Much of our concern with the market rally over the last 6 months centered around the lack of breadth in the market advance. The major indices were being carried by a few tech names with the rest of the market lagging. The chart to the left shows the relative strength of value vs. growth stocks (tech). When the chart is going down, growth stocks are outperforming value stocks. As is clear, there was a significant shift in the market a couple of weeks ago. Value stocks surged on a relative basis. It's difficult and dangerous to draw too many conclusions from such a short period of time but the shift is significant and something we are watching for new opportunities.

Our Point

As mentioned above, the S&P has fallen a little less than 5% over the last couple of weeks. Meanwhile, the more tech heavy Nasdaq fell a little less than 10%. The correction is along the lines of what we had been expecting. The two biggest questions now are if the correction has run its course and what stocks and areas of the market will lead the recovery. While there appears to be a shift in the market with small caps and value stocks leading recently, it is hard to count tech out as so many have called for (and been wrong) over the last couple of years. The pace of the decline gives us some pause as our expectation of a pullback was some weakness over the course of a few weeks rather than big declines over a course of days. We will know next week whether or not the pullback is over as we get earnings from the likes of Microsoft, Meta, Apple and Amazon as well as another Fed meeting. If the earnings disappoint, then we could easily see another 5-10% correction. However, stable earnings or upside surprises could have the markets back to the races again. With Microsoft reporting on Tuesday, we won't have to wait long. The PCE came in this morning with a goldilocks number (not too hot and not too cold). The in-line report did nothing to spur the markets either way and Fed Funds Futures are mostly unchanged with little to no expectation of a rate cut next week but high expectations for the Fed to start their rate cutting cycle in September. The last two weeks have been tumultuous with the Trump assassination attempt and Biden dropping out of the race. The markets had begun to price in a Trump victory which the polls were showing. However, with the race altered, the markets are now trying to determine what might change in what looks like a Harris administration and how the shake up changes expectations for a November winner. As we have long said, the markets will adjust quickly to whomever is in the White House but does not like uncertainty. The Democratic shift in candidates produces a number of uncertainties that the markets had not priced in. July is often a positive month with August usually showing some weakness. However, the traditional August weakness may have been pushed into July. We remain optimistic in the near term and took the opportunity of a pullback to continue to fill out our portfolio. We purchased additional equity positions yesterday in both our aggressive and moderate portfolios getting fully invested in the former and nearly fully invested in the latter. Have a wonderful weekend – next week will be a busy market week!