Bills Asset Management

BAM MARKET NOTE

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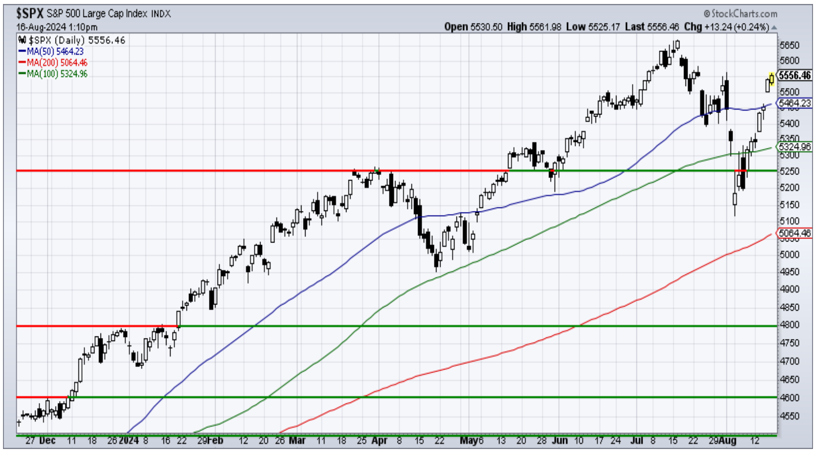

The selling and panic that engulfed the market early last week has all but subsided. The major indices have all stormed back and are now approaching the highs of the year. With the nearly two-week advance, the market is getting a little extended so a pause or small pullback next week would be constructive. The S&P spent 3 days below recent support but has now recovered that and has climbed above both the 100 and 50-day moving averages. Any pullback should find support at the 50-day average and would fill the gap up that we saw on Wednesday. Things look pretty bullish but don't get complacent.

We mentioned high yield bonds last week and how they were not confirming the pundits that were sounding the alarm on an impending recession. We noted that recession fears were not the reason the market fell so precipitously. As you can see, there is little concern in high-yields of a dangerously slowing economy. I will always side with the bond traders before the market pundits! High yields have recovered their losses and have accelerated to new highs. Stocks will likely follow suit though with more volatility.

Our Point

We noted last week that a bottom may have been set with the early August swoon. It now looks almost assured that the lows of August 5th were the near-term lows. Of course, those lows will be taken out with the next recession or before if there is some exogenous event. However, the caution flag we waved last week has been packed away for now. That is not to say to throw caution to the wind but rather to hold what you have and pick your spots to invest new cash. If you have underperformers, it might also be a good idea to sell those and generate some cash for the next buying opportunity. On the economic front, we got a good PPI report and a CPI report with no surprises. The resulting rally reflects Wall Streets continued hopes for a soft-landing. The Fed doesn't have a good record in that regard, so we remain unconvinced at this point. We remain in the camp that a recession is coming but it is likely a 2025 event rather than later this year. As we have stated here ad nauseum, election years have a perceptible tail wind as the party in power does everything it can to prop up the market and make everyone feel optimistic. The next couple of months are known for their volatility and we are sure to get some leading up to the election. Another quick 3-5% correction that works off the slight overbought condition would be healthy. However, the path of least resistance is up, and we are likely to hit new highs before election day comes. With earnings season nearing completion, stock buybacks come back into focus. Company stock buybacks have been a large component of gains over the last several years. There is a blackout period around earning season. As that blackout period ends, companies are free to buy back their stocks with excess cash. The buybacks reduce shares outstanding and raise profits per share and can drastically affect company earnings (and executive pay packages!). As such, stock buybacks can have the effect of limiting downside risk. Next week is relatively quiet with few earnings and only a few notable economic reports. We will get some Fed speak and the release of the Fed minutes from the recent meeting. Those could have some effect on the market. With a slow week, all eyes are firmly affixed to the Nvidia earnings report due out the following week. We made a small change in our conservative accounts selling one position and holding the cash to deploy into a better performing one on a pullback. After a spate of gorgeous days, heat and humidity returns for the weekend. I'll be watching the Titans and doing inside chores. Enjoy your weekend wherever it finds you.