BILLS ASSET MANAGEMENT

BAM MARKET NOTE

AUGUST 2, 2024

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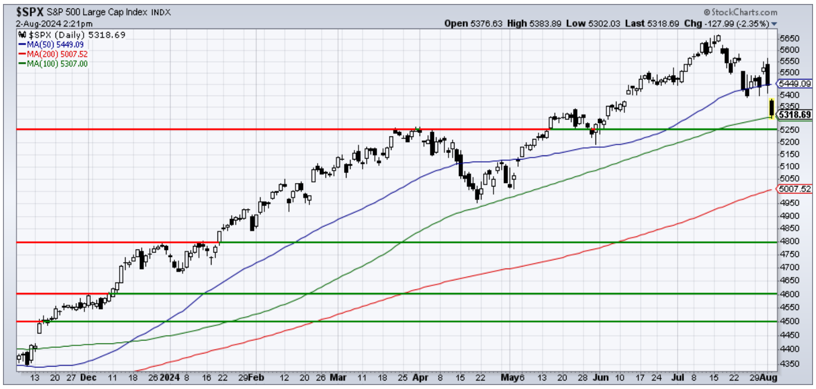
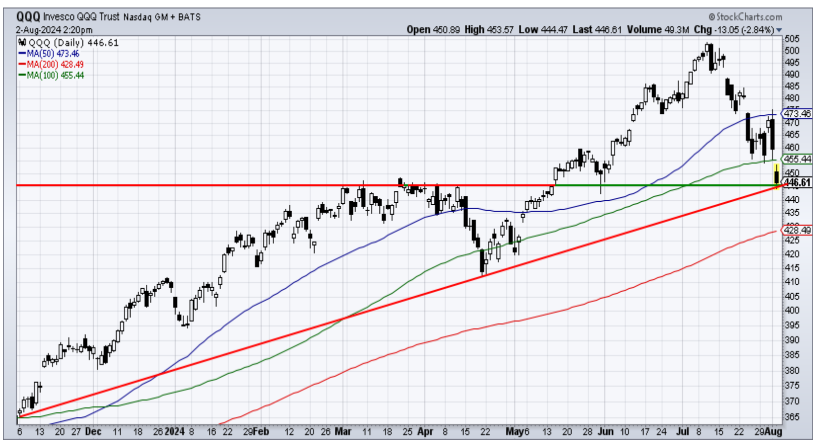


We had hoped that earnings this week would forestall the weakness we saw last week, however, they only served to accelerate some of the weakness. Despite the decline, the S&P remains just 6% off of its July highs and is where it was at the beginning of June. The index is right at the 100-day moving average and nearing support at the 5250 level. With the market significantly oversold, we are very likely to get a bounce next week. The duration and character of that bounce will provide many clues as to the near-term direction of the market. Caution is warranted.



The Nasdaq had been the big winner for much of this year, so it comes as no big surprise that it has been hit harder than the S&P. The Nasdaq 100 (QQQ) has fallen 11% since hitting its high in early July. The decline still remains at the outer edges at what we expected and wrote about several weeks ago. Importantly, QQQ rests squarely at the convergence of support and the trend line going back to last year. This is an important area and should provide some level of support. If it doesn't, then we could easily see another leg down. As noted above, we will likely see a bounce next week. The bulls will need to hold support at current levels to avoid greater losses.

Our Point

There were lots of data points this week that have moved the market. Earnings from 4 of the magnificent 7 were on tap this week with mixed results. Meta and Apple reported solid earnings and have held up well. However, Microsoft and Amazon both disappointed. Microsoft is off 4% since it reported earnings, and Amazon is getting punished today (down nearly 10%) after releasing earnings yesterday afternoon. The biggest earnings disappointment, however, is reserved for Intel. After slashing estimates, suspending its dividend and announcing layoffs, the tech bellwether is down nearly 30% today. While Intel is not the behemoth of the largest of the tech companies, the stark report, nevertheless, sent a shiver through Wall Street. As if there wasn't enough news this week, we also got a Fed meeting and a jobs report. As expected, the Fed did not make any changes to interest rates but continued to point towards a September cut. Though Wall Street rallied, there were many that argued that the Fed missed its opportunity to cut early. Those same individuals may have been proven correct as this morning's jobs report showed an unexpected and significant decline in job growth as well as an increasing unemployment rate. The surprisingly poor economic news combined with the disappointing earnings from Amazon and Intel created the deep sell off we are seeing today. The markets have been frothy, so it only took a spark, and we have certainly had that. After Chairman Powell spoke on Wednesday, the market was anticipating a 25-basis point Fed rate cut in September. Now, the bad economic news has the Fed Funds futures indicating a 100% chance of a cut with a 73% chance of a 50-basis point cut. Talk of recession is dominating the airwaves today. We have long held that we doubted the Fed's ability to engineer a soft landing and may be starting to see that scenario unwind. However, we think any recession is much more likely late this year or early next year. The bull market is still alive and while not well at least alive. How the market settles next week will give us much more information. With interest rates falling in anticipation of Fed rate cuts, bonds have perked up and have performed well over the last few weeks. Bonds will continue to do well as long as we don't get a deep recession. We did purchase a bond holding in our conservative portfolio earlier this week bringing that portfolio to a fully invested posture. While our moderate and aggressive portfolios have suffered some losses with the market, our conservative portfolios have weathered the recent storm very well. We remain cautiously optimistic but ready to make portfolio changes as necessary. Have a great weekend wherever it finds you.