BILLS ASSET MANAGEMENT

BAM MARKET NOTE

AUGUST 23, 2024

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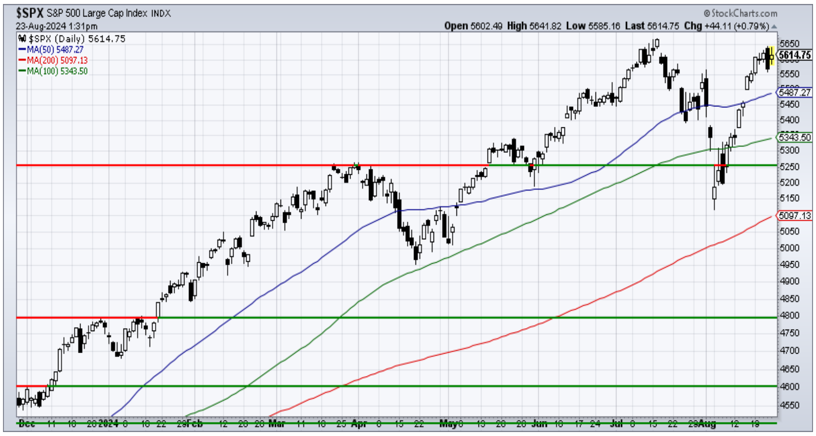
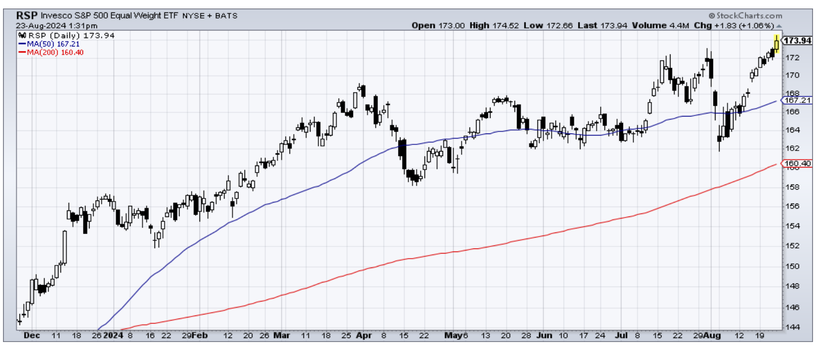


This week continued the theme of last week. The early August decline is over and done with. New highs are in sight. After 3 strong up weeks, the market is due for a breather. We will likely get that over the next couple of weeks. A 2-3% decline that takes us back to the 50-day moving average is likely before we fully overtake the new highs. It would also conveniently fill the gap up we saw last Thursday. Volatility will pick up as traders return in September and as the election nears and kicks into high gear. Though the next couple of months could get bumpy, pullbacks should be bought with excess cash you have on hand.



While the cap weighted indices haven't yet returned to their highs, the equally weighted S&P (RSP) has. The surge in RSP bodes well for the health of the market as all companies are surging and not just the mega magnificent 7. The increasing breadth and participation is a welcome development.

Our Point

Chairman Powell made it official today. Interest rate cuts are coming. In Powell's words, "the time has come for policy to adjust." Of course, the words were a little anticlimactic as the bond markets and Fed Funds futures had already fully priced in a 25-basis point cut next month. With an interest rate cut assured, the questions now shift to whether it is 25 or 50 basis points and how many cuts will there be? Our view is that absent an earth-shattering employment or inflation report between now and September 18th, the Fed will stick with an incremental 25-basis point cut with another one or two cuts by year-end. A larger September cut would likely spook the market as investors would begin to ask what the Fed sees in the upcoming economy that we don't. Any doubt in the Fed's dovish thinking was allayed by the surprising and disturbing restatement of jobs created over the last year. Earlier this week, the Bureau of Labor Statistics (BLS) released revised jobs numbers for the last year. Astonishingly, the BLS revised those numbers down by 818,000. To put that number into perspective, it represents nearly 30% of all job gains over the last 12 months. So, 3 out of 10 jobs were misreported over the last year! Missed it by that much! The only 3 sectors that showed a positive revision were government jobs, private education and other services. A robust jobs market isn't present, when government and private education lead the market. Next week there will be several important economic reports, but the most impactful will be Friday's PCE report. With a Fed rate cut assured, the PCE report won't have much impact on the September Fed meeting but will influence further cuts later in the year. The biggest potential market mover next week is the earnings from Nvidia. The much-anticipated earnings will be released after market close on Wednesday. Nvidia has blown out their last several quarters of earnings and have sparked significant up moves in the market. However, with each passing quarter, expectations increase. At some point, the expectations won't be met, and the stock will be punished. With Nvidia such a large part of both the S&P and the NASDAQ, the markets will follow suit – up or down. It is a little unsettling to have so much riding on one stock. We made a few changes in our portfolios this week as we exchanged two positions in our conservative portfolio with better performing ones. With an interest rate cycle beginning, bonds will play an increasingly important role in achieving excellent risk adjusted returns in all of our portfolios. Earlier this week it felt like an October football Saturday! With temps back due in the high 90's next week, it didn't last long. But despite the weather, we do get real football this weekend and the Vols opener next weekend. It can't come too quick. Enjoy your weekend wherever it finds you..