

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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Last week we mentioned that we were likely to see some reprieve from the weakness and get a bounce this week. The bounce that has come to fruition has been quite impressive and puts all-time highs squarely back in focus for the major indices. The large swings of momentum in the markets do raise some concern but the increase in volatility during this time of the year is not entirely unexpected. Despite additional risks from the Fed cutting rates, a tightly contested election, and increasing uncertainty in a number of global conflicts, the market has held up quite well.



High yield bonds have extended their impressive uptrend and enjoyed a sizable move higher this week. We suspect the move can be attributed to the expectations that the bond market has for the Fed's impending rate cuts. Rising high yield bonds add to the weight of the evidence that we are still in fairly strong market conditions. There has been some significant rotation into the bond market over the last couple of weeks and investors are positioning for a lower interest rate environment. We are happy with our current bond holdings but will continue to look for strong opportunities in the fixed income space.

Our Point

September has been a historically weak month for the equities markets and we certainly started the month on a sour note. The second week of the month has proved to be much better as we have erased the month's losses and now sit at a small gain in the major indices for the month. We had important CPI data come out Wednesday morning and avoided any major surprises as the numbers came out mostly in line with expectations. With no other major economic news coming out between now and the FOMC meeting next week, all eyes will be directed at Chair Powell and the rate decision to be delivered Wednesday afternoon. The Federal Reserve has not cut rates since March of 2020 in the midst of the Covid 19 outbreak so the pivot in policy will be an adjustment for the market with potential for more volatility. The market is pricing in a 25-basis point cut, but a 50-basis point cut is not out of the question and becoming increasingly more likely. As of the time of writing this, traders are pricing in the possibility of a 50-basis point cut at almost 45%. The larger cut could cast additional fear into the market as investors might worry the Fed knows more about the state of the economy than they are letting on. The Fed has once again found itself in quite a balancing act, attempting to keep inflation in check but also hoping to avoid recession. We expect more volatility ahead but remain in the camp that sizeable pullbacks should be bought. We did not make any changes to our portfolios this week and are happy with our current positioning. Bo and I will be hoping to see as strong of a bounce back from Will Levis and the Titans as we have seen in the stock market this week. An abysmal showing in week one has tempered expectations for the season, but we will be at the home opener showing our support and hoping for a better result. We hope you have an excellent weekend wherever it finds you.