BILLS ASSET MANAGEMENT

BAM MARKET NOTE

SEPTEMBER 20, 2024

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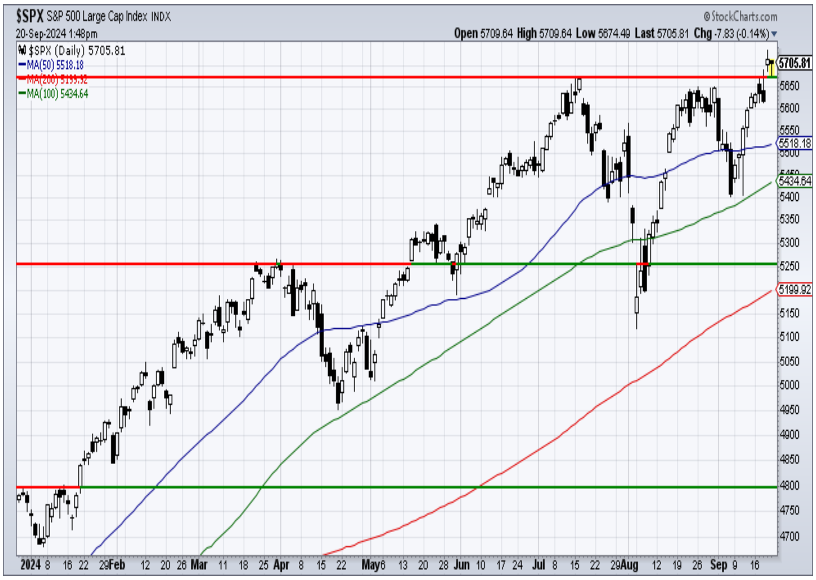

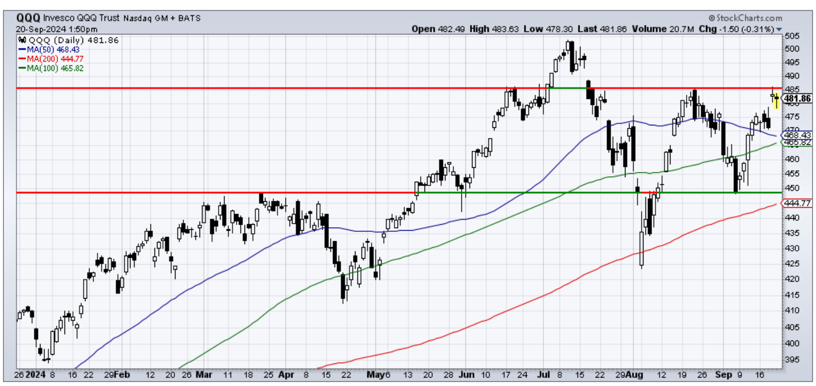

The markets drifted sideways for the first part of the week as they waited for the Federal Reserve decision on rates. That decision came Wednesday afternoon. The initial response was negative but, as is often the case, the kneejerk reaction to the news is often reversed the following day. The Wednesday sell off was reversed strongly yesterday to finish with big gains across the board. The gains are holding today (very positive) and new highs have been set for the S&P. Small caps and the Nasdaq are still a ways from their highs, but both should follow suit in short order should the S&P hold these highs. The resistance of prior highs now becomes support, and it will be very important for the S&P to hold these levels. The market environment is favorable, but volatility should be expected as we approach the election over the coming weeks.

As mentioned above, the S&P has reached new highs. However, the Nasdaq 100 is still 4% from their highs (small caps too). In many respects, the fact that the S&P is outperforming is positive as it shows that a broader swathe of stocks are driving this market and not just the largest of the tech stocks. That said, historically, the Nasdaq usually leads in bull markets so tech stocks could play a little catch up over the rest of the year. The Nasdaq is at resistance so another leg up could take some additional positive news.

Our Point

Markets around the world cheered the Fed cutting rates by 50 basis points on Wednesday afternoon. As mentioned here over the last several weeks, a 25-basis point was all but assured and priced into the markets. However, most did not expect the Fed to lower rates by 50 basis points. Surprise is too strong a word as the odds of a half point cut were about the same as a quarter point cut, however, the aggressive rate cut did raise a few eyebrows. Considering Wall Street's reaction, traders are not concerned with a slowing economy and cheered the stimulus effect of the rate cut. Lower rates will reverberate through the economy in the form of lower mortgage, credit card, bank loan rates, etc. As noted here over the last year, lower rates will also provide a significant tail wind for bond funds of all types. One of the negatives, however, is that interest rates on bank and money market deposits will similarly decline. The reduction in the savings rate could push some money out of money markets and into the equity or bond markets especially if the Fed continues its interest rate cuts as they outlined at their meeting this week. Next week, we'll get another GDP reading and the always important PCE inflation report. The inflation report is particularly important as it will potentially confirm or contradict the Fed's aggressive rate cut. Both could move the markets. The markets are a bit overbought so a pullback or sideways move next week would be constructive for the health of the markets. We made no changes to our portfolios this week as we are nearly fully invested. Our portfolios are performing as we had anticipated. The Titans are struggling and the Vols are rolling – 1 out of 2 isn't bad. We'll hope the Vols party continues this weekend with a big game tomorrow night and try to get the Titans on the right side of the win/loss column. It should be a fun weekend with lots of sunshine. Thank you for your trust in us. If you are a reader and need assistance with your portfolio, please reach out to us and we would be thankful for the opportunity to give you our thoughts. Have a great weekend wherever it finds you.