BILLS ASSET MANAGEMENT

BAM MARKET NOTE

SEPTEMBER 6, 2024

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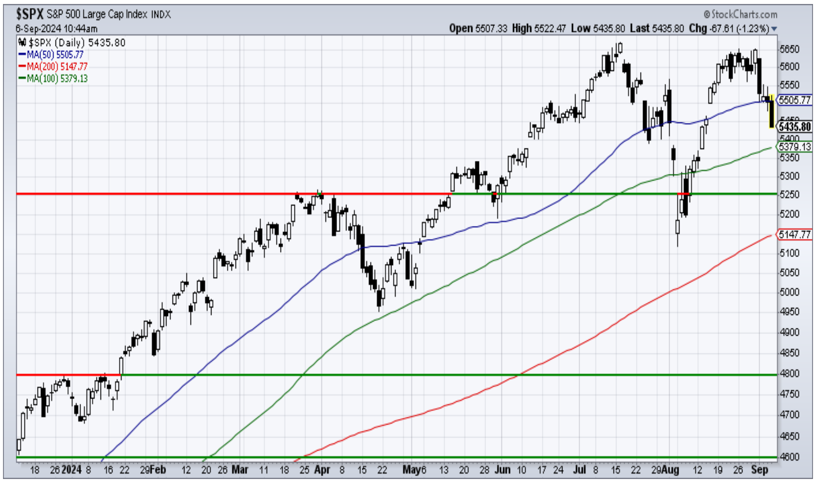
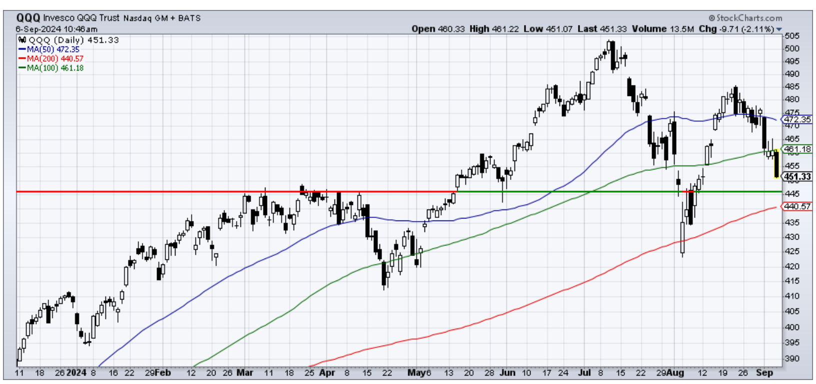


We mentioned last week the challenges of September and the headwinds the market faced in the short-term. We also noted that we expected a pullback of 2-5%. We are now fully in the midst of that pullback with the S&P down close to 4% from its recent high on August 30th. The market is not oversold yet but is moving in that direction. The 100-day moving average (1% below current levels) should provide some level of support but a visit back down to the early August lows are not out of the question. This pullback looks like it has further to go so caution is warranted. Another buying opportunity will come from this weakness, but it isn't here yet.



Technology has been decidedly weaker. After the early August sell-off, the Nasdaq mounted a rally, but it fell well short of the July highs. As seen above, the S&P fared much better and recovered nearly all of its losses. Similarly, the recent weakness has hit tech stocks harder with its recent pullback standing at 7%. Today, support at the 100-day moving average failed to hold and the 200-day moving average is in sight. We are likely heading there though we could see a bounce next week.

Our Point

For those hoping for a Fed rate cut, they will get that the week after next. However, what they have wished for all year may turn out to be less favorable than they expected. It is assured that the Fed will cut 25 basis points Wednesday week, but signs are now pointing towards a more aggressive 50 basis point cut. The economy is weakening, and the labor market is leading the way. This morning's job report came in lower than expected. Also, as has become the norm, prior months job gains were revised downward. It is quickly becoming a poor job market. Since last week, the probability of a 50-basis point cut by the Fed has increased from 32% to 50%. Next week's CPI and PPI reports will tip the balance one way or another. As we have mentioned a number of times throughout this year, Fed rate cuts are made to stimulate business activity and come when the economy is weakening. While the cuts themselves will eventually stimulate the economy, the reasons for the cuts are not generally positive. Accordingly, the actual cuts don't always generate positive market movements initially. We are likely seeing a little bit of selling in anticipation of the rate cuts coming and the corresponding weakness in the economy. Instability and some back and forth in the markets is likely to continue for the next few weeks. We continue to believe that current weakness will subside and that a rally to end the year is more likely than not. Regardless of what we think will happen, we will follow the charts and respond accordingly. An acceleration in the selling could stop us out of some positions. We made no changes to our portfolios this week and hold some level of cash in our conservative and moderate portfolios. While equities have weakened over the last couple of weeks, the bond funds we hold have continued moving higher. The upcoming Fed rate cuts will provide a tailwind for bond funds but that could change should the economy weaken too much. For now, we are very pleased with our holdings, though some of the equity holdings are nearing sell stops. This weekend brings cooler temps and a full slate of college and pro football. It is beginning to feel a little Fallish but summer isn't over yet. Both the Vols and Titans have games so it will be a fun weekend that I will spend in front of the TV and playing outside a little. Enjoy your weekend wherever it finds you.