Bills Asset Management

BAM MARKET NOTE

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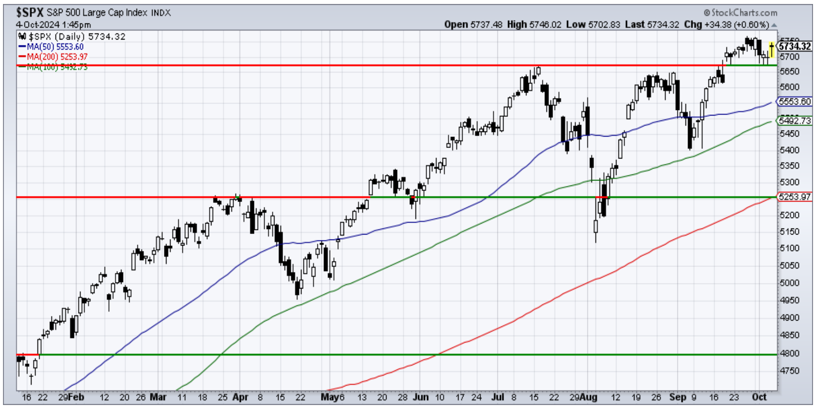

The major indices pulled back a little this week. Importantly, however, the S&P held support three times this week as the market tested the prior highs on Tuesday, Wednesday and Thursday. Each day the index traded down right to support where it bounced. This is a positive development as buyers are stepping in each time support is approached. The pullback has been modest at best and is allowing for any overbought conditions to be constructively worked off. The markets continue to look favorable, and pullbacks should be bought.

We often talk about high yield bonds in these pages as they are often a very good barometer of market sentiment. They are also frequently a “canary in the coal mine” for market issues to come. High yield bonds have had an impressive run since the start of summer. While they have mostly traded sideways over the last three weeks, they are still well above their 50-day moving average. Bond traders are showing little concern for a recession or a significant slow down in the economy.

Our Point

As we mentioned at the start of last month, September is historically one of the weakest trading months of the year. Historical tendencies should never be traded but rather should be used as a larger part of your investing strategies. Consider them headwinds and tailwinds rather than lines in the sand. While September is often a weak month, there are exceptions, and this year was one of them! The markets finished the quarter strongly with the S&P up over 2% for September. In fact, those investors that listened to the Sell in May and Go Away crowd missed out on a wonderful investing summer. The S&P was up over 14% from May 1st to September 30th. Again, many investing maxims and historical tendencies carry some weight but should not be used for making investment decisions but rather to color your other analysis. For us, looking at charts (lots of charts) showing what the market is doing rather than what we think it should be doing is what we feel is a much better way to capture most of the upside of a market and avoid most of the downside. We noted last week that today’s jobs report could be a market mover, and it has been. The monthly report showed an impressive 254,000 in job gains for September and an unemployment rate that dipped just a tad. We were a little surprised that the market rallied on the report as a stronger labor market could stall the Fed from lowering rates at their last two meetings of 2024. However, we suspect that Wall Street was worried that the economy was slowing too quickly, and the positive jobs report increases the probability for the Fed to engineer a soft landing for the economy. While the reason is not all that important, the fact is that markets are continuing to move higher. Next week, we’ll get new inflation readings and earnings season is right around the corner. Absent a big surprise in the inflation readings, investors will look past those reports and focus on earnings. We made no changes to our portfolio holdings and remain fully invested in a combination of bond and equity funds. With falling interest rates and a stable economy, bond funds should continue to provide excellent risk adjusted returns. While volatility over the next few weeks can be expected as we enter the final stretch of the election, we remain optimistic that markets will continue their march upward. Beyond 2024, we get a little nervous, but all signs point to a positive end to the year. As always, we are open-minded, and our thinking will change as market conditions dictate. Footage from the historic flooding for our friends in East Tennessee and North Carolina is astounding. The depth of damage and suffering is hard to comprehend. While our thoughts and prayers are with all those affected, I would also ask for you to consider donating to local charities set up to provide aid and assistance. It should be a welcomed beautiful weekend in Tennessee. Have a good one wherever you are.